



Impact of Macro-economic Environment on the Automotive Industry

ACMA

October 2020



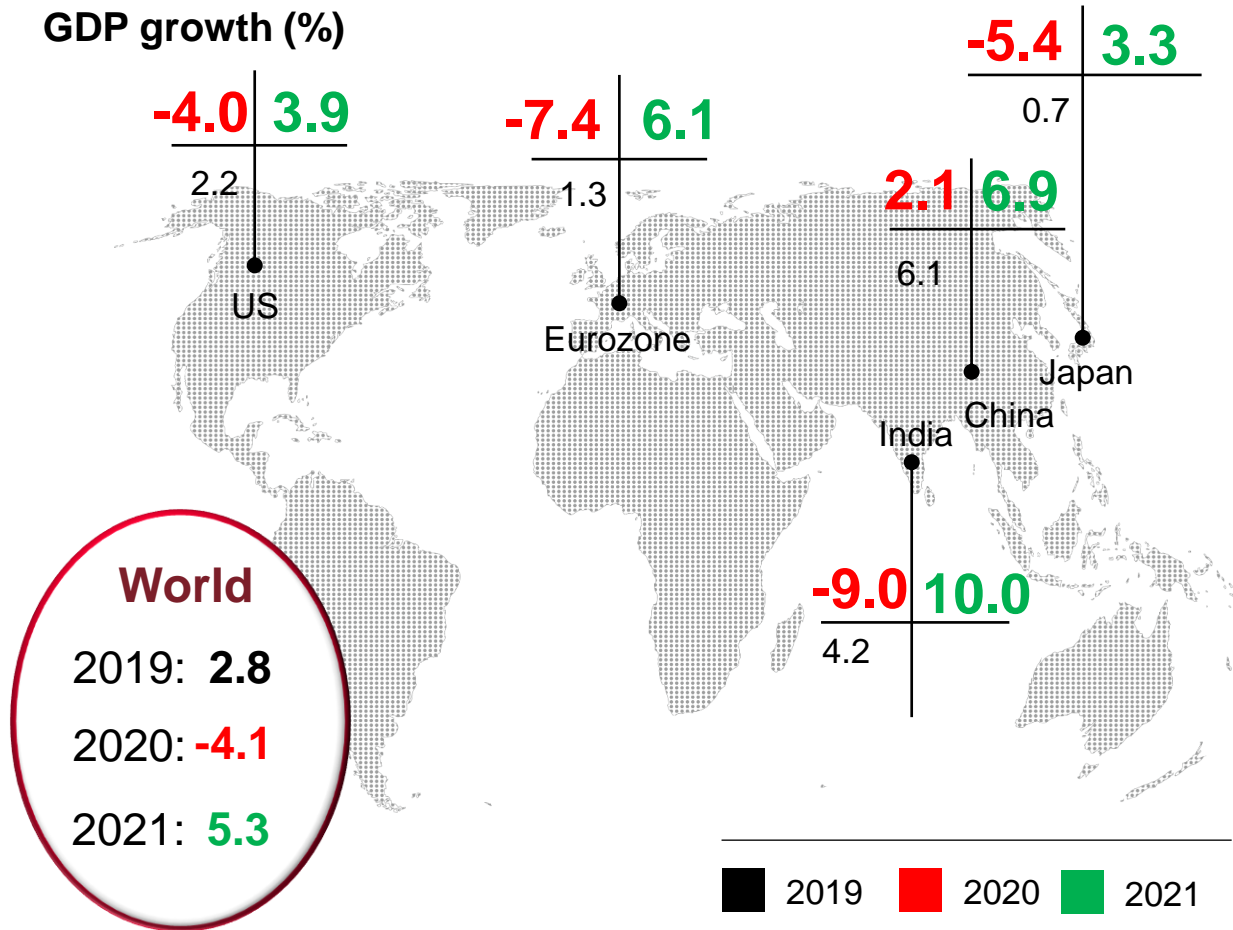
Content

- Economy overview
- On-ground Sentiments
- Overall Finance Scenario
- Indian Automobile Industry
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- Rural Scenario and government spending



Economy overview

Deep global recession; India's GDP to contract 9%



Halfway through 2020:

- Huge economic costs of pandemic apparent in downward revision of growth forecasts
- Unprecedented levels of monetary and fiscal stimulus unable to prevent global recession
- Risks global** : Second wave, premature stimulus withdrawal
India risks: + financial sector stress, lack of fiscal support

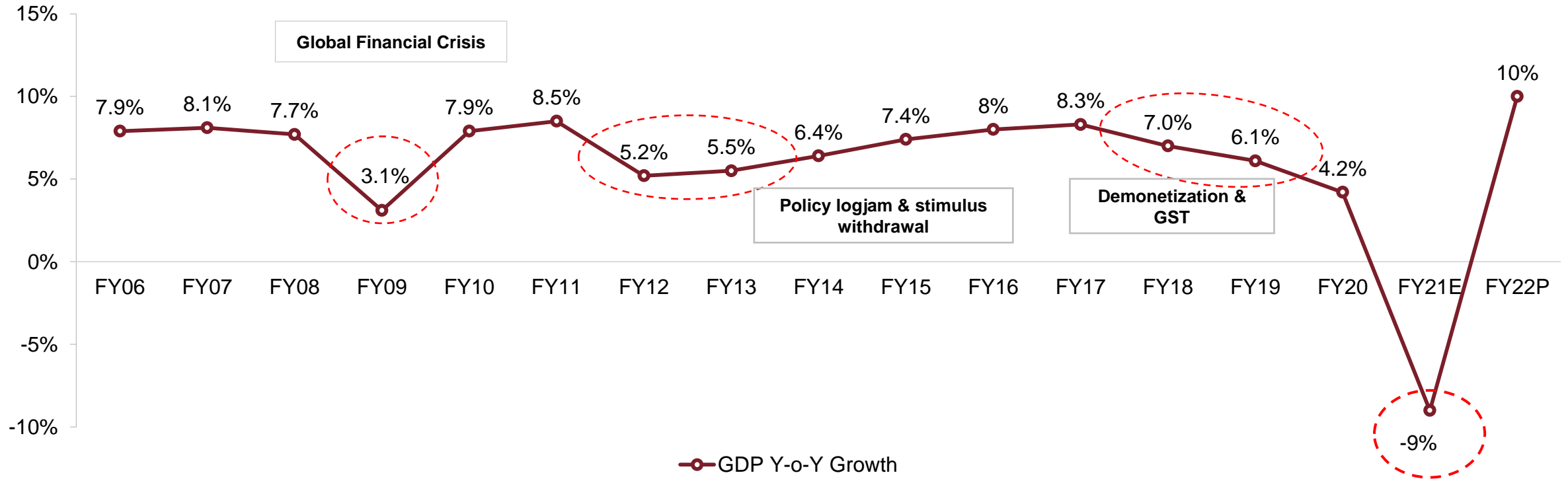
Source: S&P Global, April 2020; India outlook is for fiscal year e.g. 2020~FY21 and 2021~FY22

Macroeconomic outlook

Segments (% Growth Y-o-Y)	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21 E
GDP (% Growth Y-o-Y)	7.4	8.0	8.3	7	6.1	4.2	(9)
GVA Industry	7.0	9.6	7.7	6.3	4.9	1.8	(13)-(11)
GVA Services	9.8	9.4	8.5	6.9	7.7	7.0	(11)-(9)
GVA Agriculture	-0.2	0.6	6.8	5.9	2.4	3.7	2-3
CAD (as a % of GDP)	1.3	1.1	0.7	1.8	2.1	1.0	0.8
10-year G-sec yield (end-March)	7.7	7.5	6.8	7.6	7.5	6.2	6.5
PFCE	6.4	7.9	8.1	7	7.2	5.3	(9)-(7)
Crude oil (\$/barrel/CY)			44	54.4	71.2	64	40-45
Inflation (Consumer Price Index)	5.9	4.9	4.5	3.6	3.4	4.8	5.6

Source: CSO, RBI and CRISIL estimates

Unfettered pandemic spread, inadequate fiscal support and anchored inflation drag GDP growth into a trough

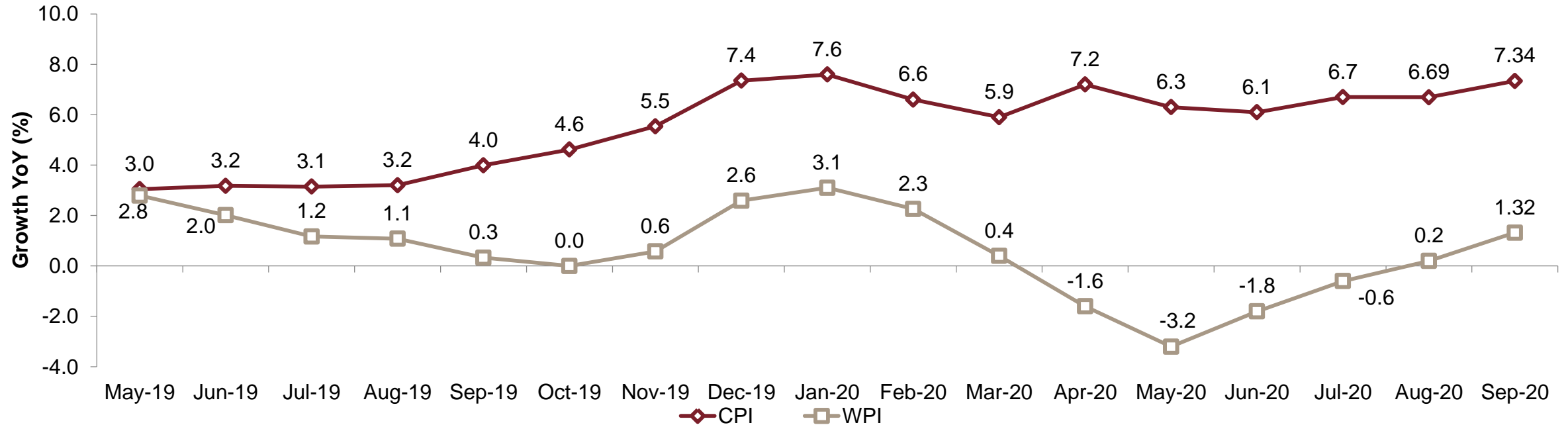


Note: GDP – Gross domestic product; Data on 2011-12 base, P=Projected
 Source: Central Statistical Office, MOSPI, CRISIL Research

- Nationwide lockdown; followed by regional lockdowns and curbs, coupled with the effects of a troubled global economy, resulted in the worst ever real GDP contraction of 23.9% on-year in the first quarter of fiscal 2021
- There is a bigger dent to industry which collapsed 38.1% on-year, mainly led by construction (completely crippled during the lockdown) and manufacturing (which hit discretionary consumption and exports).
- Agriculture was the only sector which registered positive growth of 3.4%; while services contracted 20.6%.
- From a record low base of FY21, we expect the economy to bounce back in FY22 & clock a 10% growth in GDP

WPI inflation back in positive territory August onwards; CPI inflation inches up

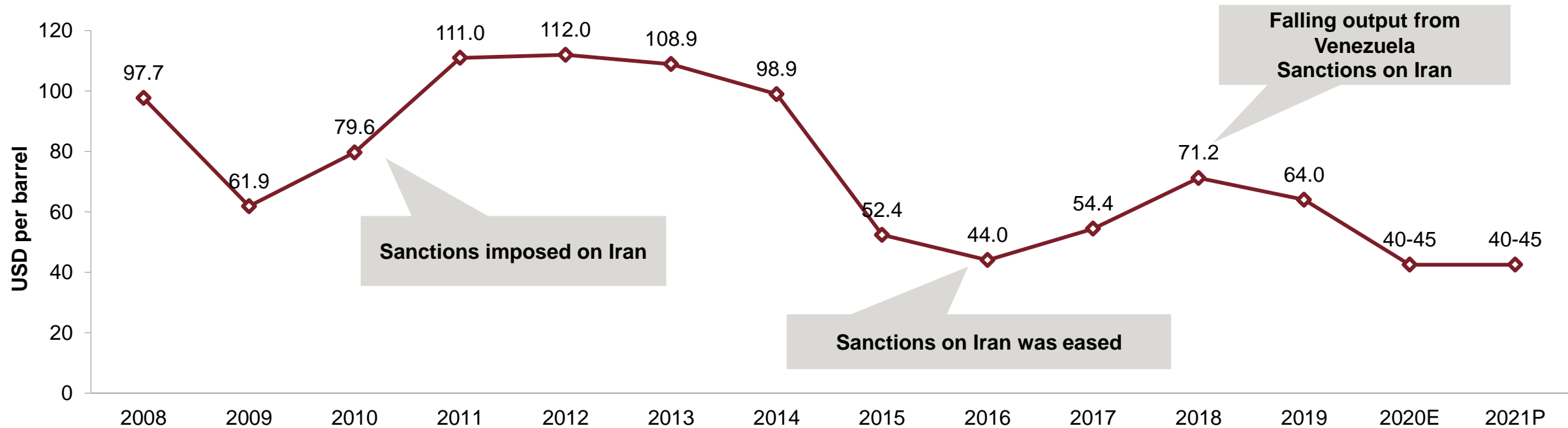
Inflation (YoY Growth %)



Source- National Statistics Office, CRISIL Research

- Consumer price index (CPI)-based inflation was almost flat at 6.69% in August compared with 6.73% in July (revised from 6.93% earlier), remaining outside the upper bound of the Reserve Bank of India (RBI)'s target range of 2-6% for the fifth consecutive month.
- The Wholesale Price Index (WPI) continued to trend northwards, reaching 122.9 in September and topping February's pre-pandemic level of 122.2. WPI-based inflation rose to 1.3% from 0.2% in August, after being in negative territory from April-July. While a large part of the rise is on account of food inflation, manufacturing (core inflation), too, has been gradually firming up. Fuel inflation, on the other hand, remained in negative zone.
- Inflation is expected to ease in the second half of fiscal 21, when the fresh kharif harvest hits the market

Crude prices to remain under pressure amidst tepid demand



Note: Prices are as per calendar year

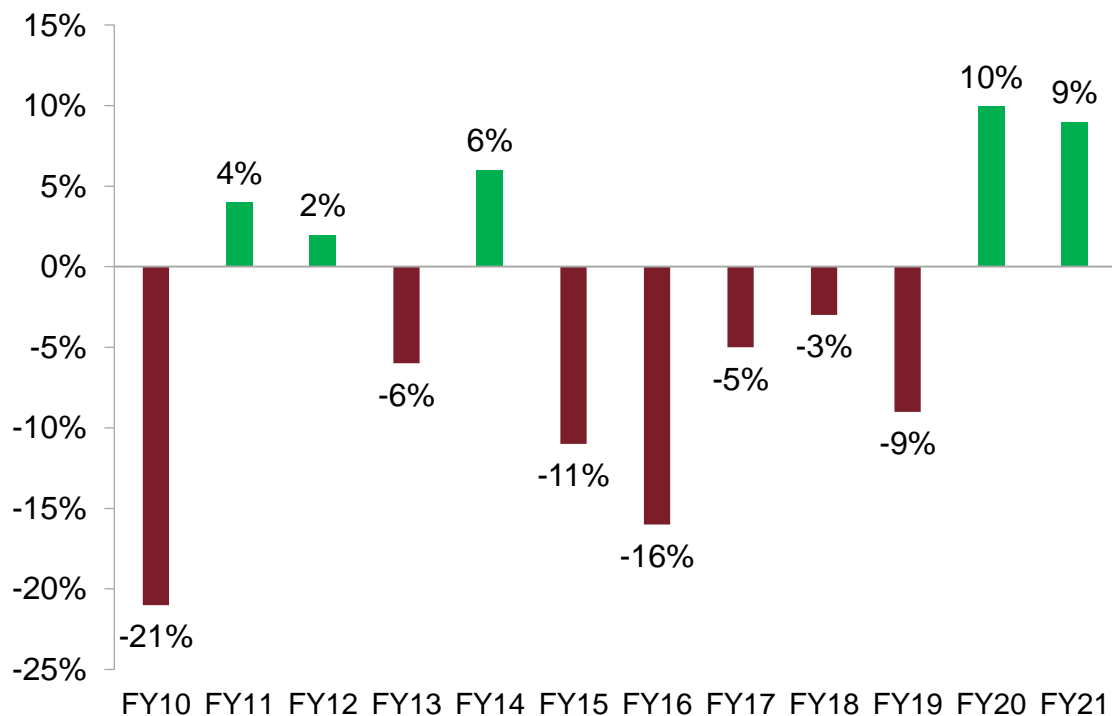
E=Estimate, P=Projected

Source: CRISIL Research

- Crude oil prices have fallen sharply to below \$30 per barrel owing to the price wars initiated by oil-producing nations amid weak demand on account of Covid-19
- The over-supply of crude, along with structural demand changes, is expected to keep the prices depressed over long term
- If the global economy is hit by a recession and there is no substantial recovery in economic activities post the Covid-19 containment, it would have an enormous impact on oil demand
- Competition from alternative technologies is expected to play a pivotal role in energy dynamics and significantly impact crude oil demand from the road transport segment given the aggressive government push

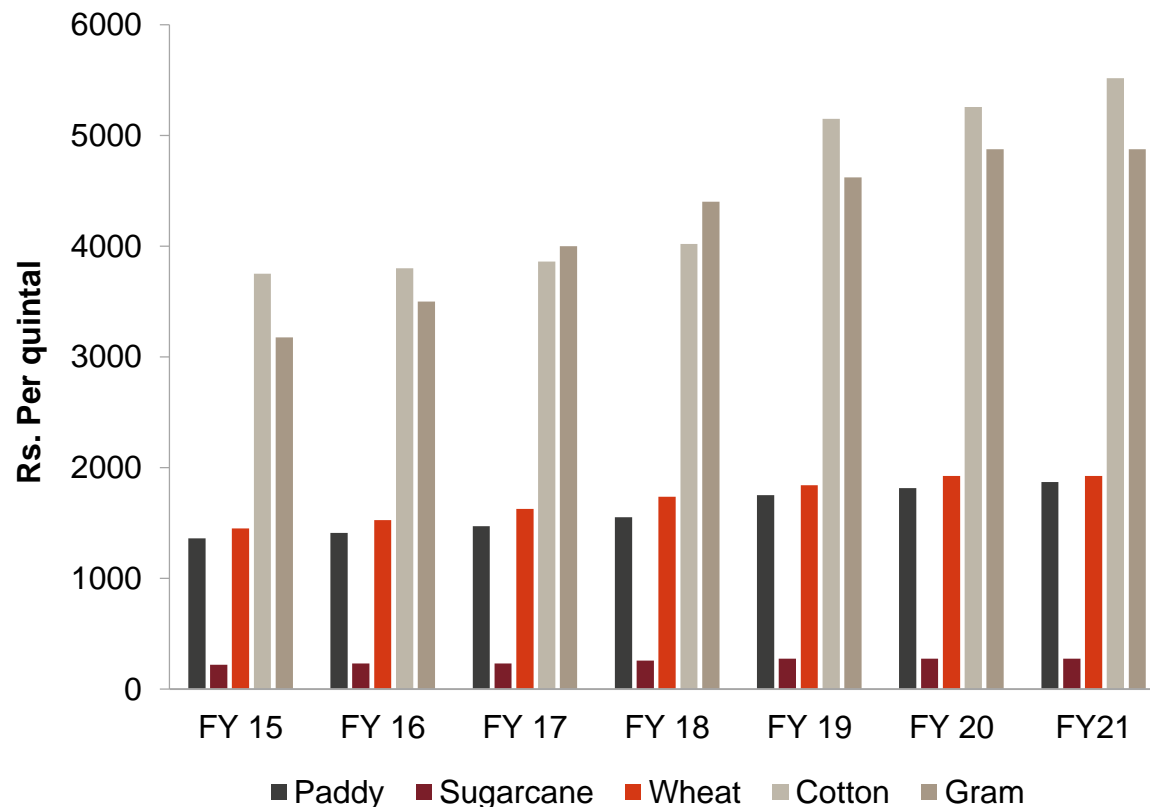
Amid this gloom and doom, the one sector that holds out hope is agriculture

2 consecutive years of above normal monsoons



Source: Indian Meteorological Department

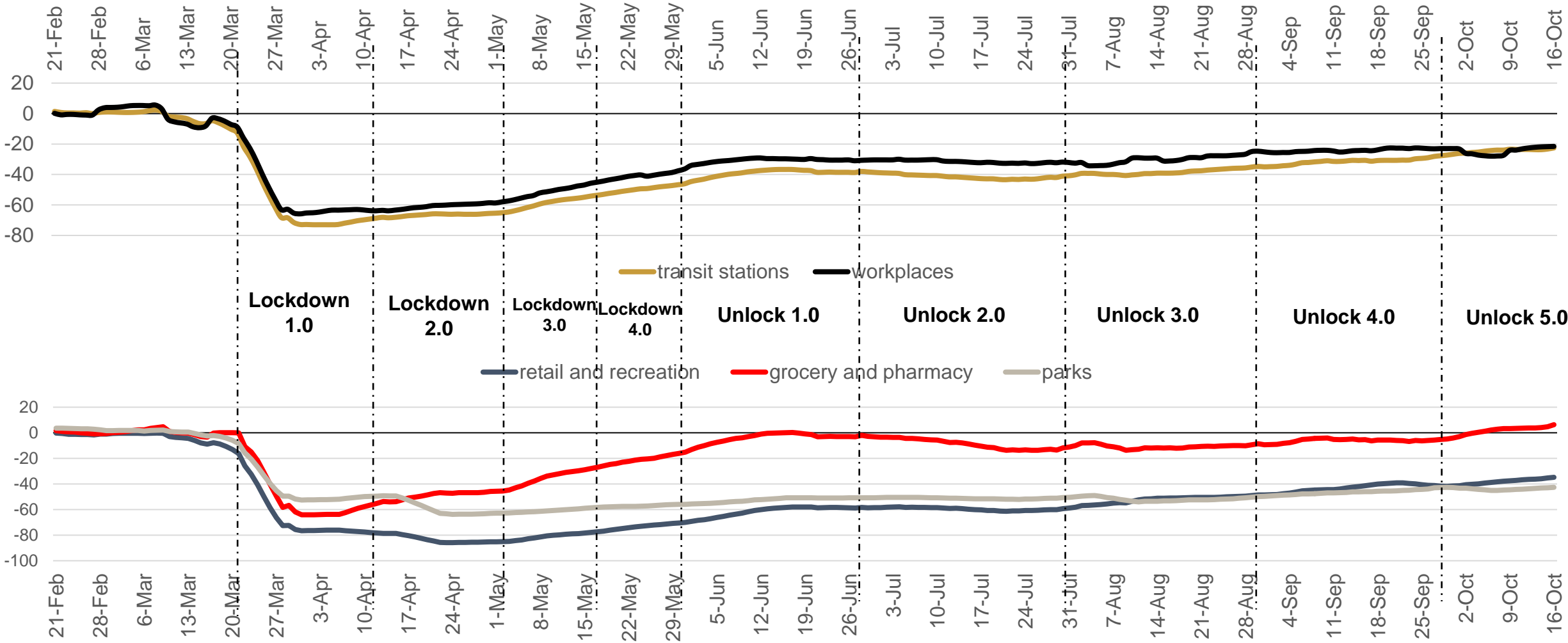
MSP of major crops in the last 5 years



Source: Ministry of Agriculture & Farmers Welfare

On-ground sentiments

Mobility across locations improving due to ease in lockdown restrictions

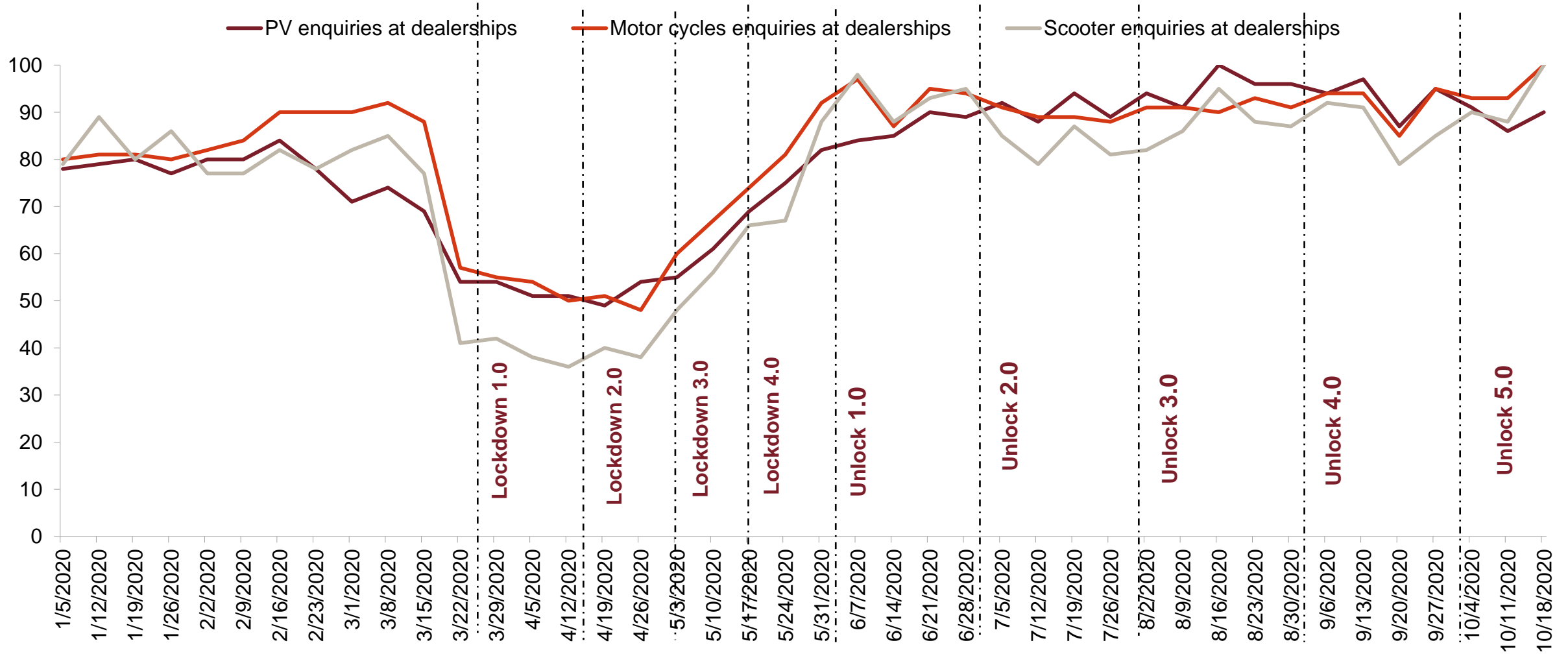


Source: CRISIL Research, Covid-19 Community Mobility Reports by Google,

Research

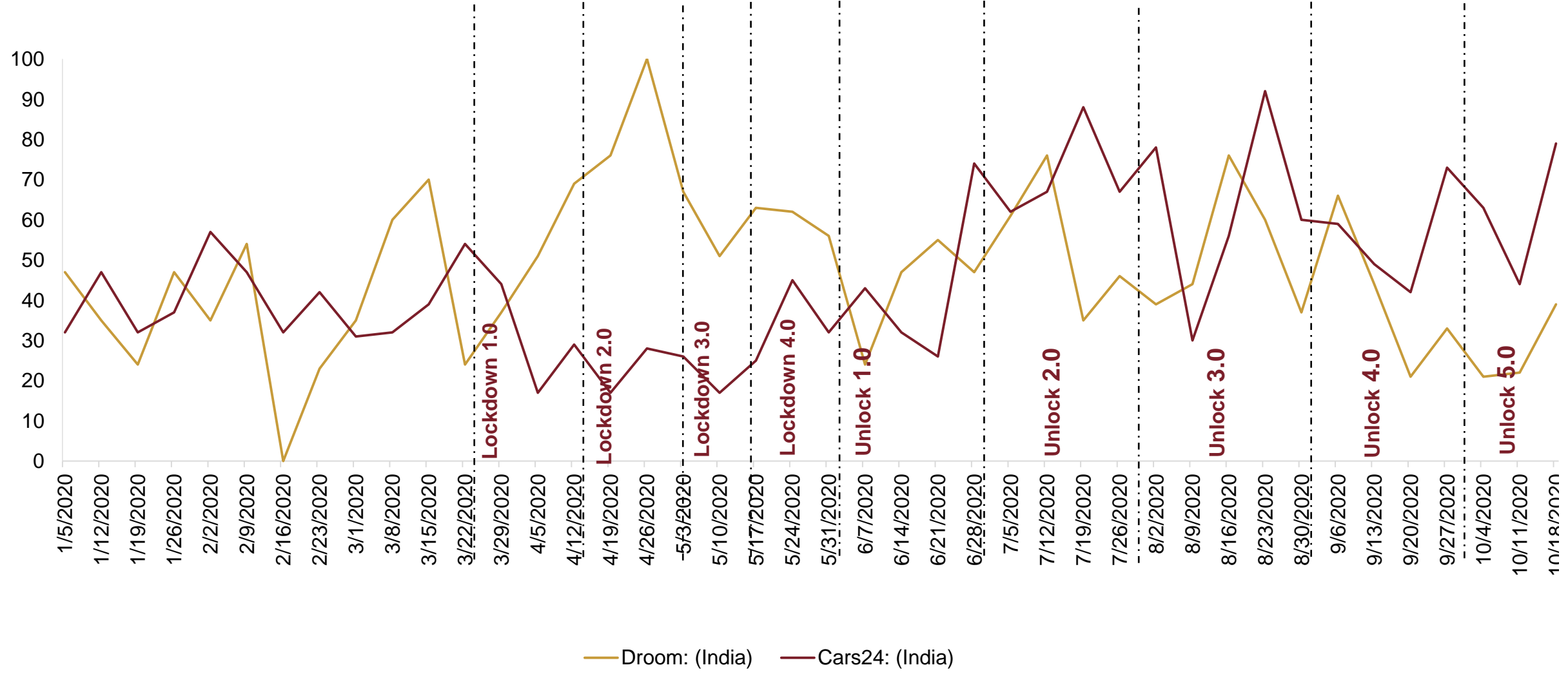
Note: Data represents 7 day Moving Average data. Google's Community Mobility Reports use smartphone location data to publish reports about people's movement in an area. India's smartphone penetration is 25-30%

Personal mobility vehicles moving in tandem; motorcycle popularity remains intact



Source: CRISIL Research, Google analytics

Popularity of used cars gradually climbing



Source: CRISIL Research, Google analytics

Research

High frequency parameters indicate sluggish environment

Segments (% Growth Y-o-Y)	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	June-20	Jul-20	Aug-20	Sep-20
Core Sectors																		
Coal	3%	2%	3%	-2%	-9%	-21%	-18%	-3%	6%	7%	10.3%	5%	-1%	-15%	-15%	-6%	4%	
Crude oil	4%	-3%	-7%	-3%	2%	-7%	0%	-6%	-7%	-5%	-6%	-6%	-6%	-7%	-6%	-5%	-6%	
Natural Gas (Consumption)	5%	-1%	4%	5%	4%	1%	4%	4%	4%	6%	25%	3%	-25%	-9%	-9%	-2%	-2%	
Brent crude oil price (\$/barrel)	0%	-9%	-16%	-13%	-19%	-21%	-26%	-4%	17%	7%	-14%	-50%	-67%	-55%	-37%	-33%	-25%	-34%
Petroleum Products (Consumption)	3%	2%	-2%	4%	3%	1%	-2%	9%	0%	0%	4%	-18%	-46%	-23%	-8%	-12%	-16%	-4%
Fertilizers	-4%	-1%	2%	2%	3%	5%	12%	14%	10%	0%	3%	-12%	-5%	8%	4%	7%	7%	
Steel	13%	13%	11%	8%	4%	-1%	-1%	7%	9%	2%	6%	-24%	-84%	-43%	-25%	-16%	-6%	
Cement	2%	3%	-2%	8%	-5%	-2%	-8%	4%	6%	5%	8%	-25%	-86%	-21%	-7%	-14%	-15%	
Auto																		
Two Wheelers	-16%	-7%	-12%	-17%	-22%	-22%	-14%	-14%	-17%	-16%	-20%	-40%	-100%	-84%	-27%	-15%	3%	12%
Cars	-19%	-24%	-23%	-35%	-41%	-31%	-4%	-8%	-8%	-8%	-8%	-52%	-100%	-90%	-58%	-12%	14%	29%
Uvs + Vans	-11%	-11%	-5%	-19%	-3%	1%	16%	25%	14%	1%	-2%	-47%	-100%	-77%	-35%	9%	14%	23%
Three Wheelers	-7%	-6%	-9%	-8%	-7%	-4%	-4%	5%	22%	13%	-31%	-58%	-100%	-95%	-82%	-77%	-75%	-72%
Others																		
PMI Manufacturing	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46	52	56.8
IIP Overall	3%	5%	1%	5%	-1%	-4%	-4%	2%	0%	2%	5%	-18.3	-55%	-34%	-16%	-10%	-8%	
Diesel consumption	2%	3%	1%	3%	-1%	-3%	-7%	9%	0%	-2%	6%	-24%	-56%	-25%	-14%	-25%	-34%	-6%
Rail freight	3.2	2.9	2.0	1.6	-6.1	-6.6	-8.1	0.9	4.3	2.6	6.5	-13.9	-35.3	-21.8	-7.7	-4.5	3.9	15.5

Note* - Wherever data is not available estimation is made based on expected trend.
 Passenger vehicle numbers do not include sales figures for Tata Motors
 Source: CSO, RBI and CRISIL estimates

Urban picking up post unlock initiatives

	Share of key rural districts	Others	Total
FY20			
PV	32%	68%	100%
CV	41%	59%	100%
2W	47%	53%	100%
Tractor	63%	37%	100%
Q1 FY21			
PV	36%	64%	100%
CV	44%	56%	100%
2W	51%	49%	100%
Tractor	68%	32%	100%
Q2 FY21			
PV	34%	66%	100%
CV	43%	57%	100%
2W	46%	54%	100%
Tractor	61%	39%	100%

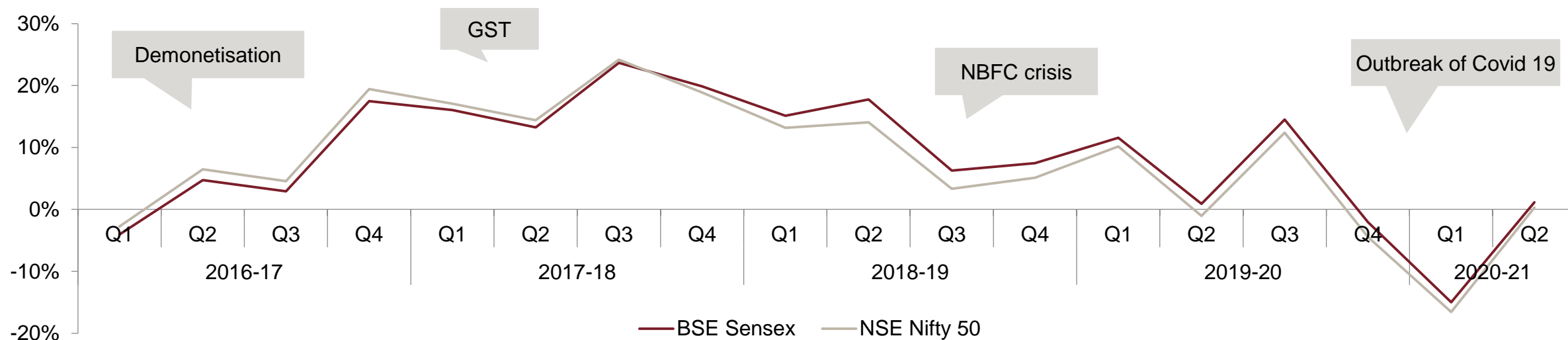
Research

Note: Represent retail share of sales of ~410 districts with more than 60% population in rural areas

Source: Company Reports, CRISIL Research

Signs of economic recovery, prospects of continued stimulus drove market sentiment globally; domestic markets followed suit

BSE Sensex and NSE Nifty 50



Source: BSE, NSE, CRISIL Research

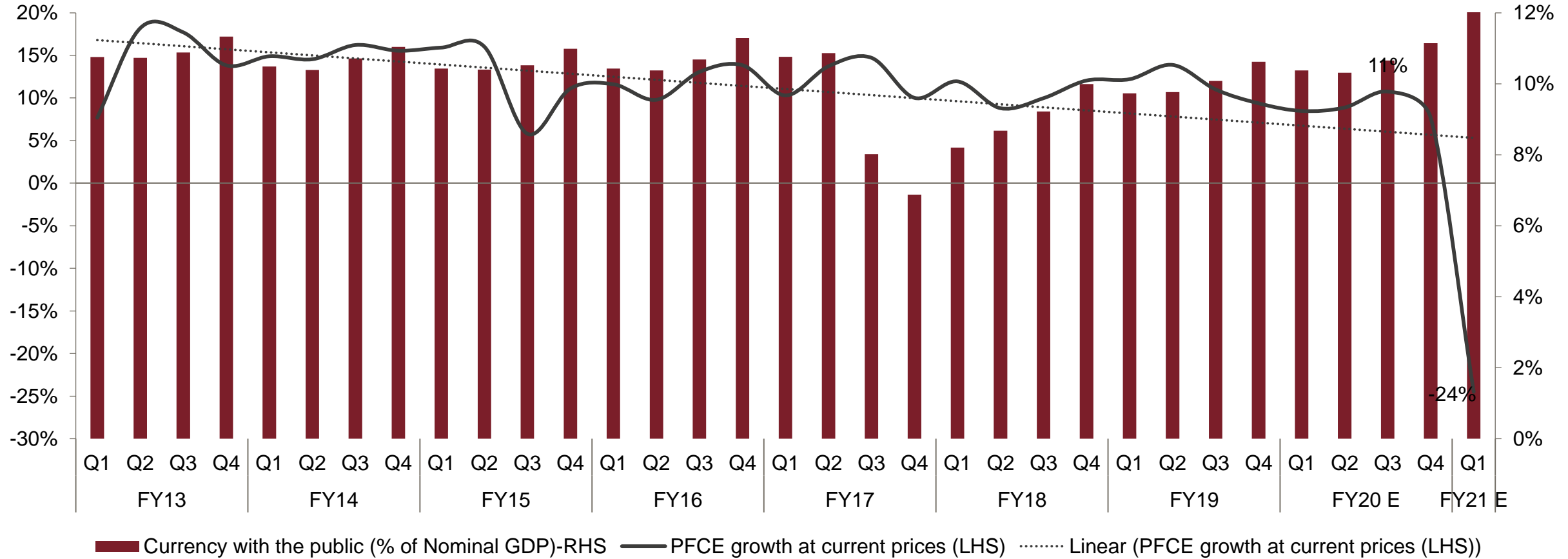
Index	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2
BSE Sensex	FY 20	39,380	37,827	40,725	36,163	FY 21	33,476	38,255
NSE Nifty 50	FY 20	11,819	11,205	12,033	10,587	FY 21	9,861	11,236

- The steady gains in benchmark indices were visible in sectoral components: all S&P BSE sectoral indices ended in the green in Sept.
- Auto stocks rose sharply on tax cut hopes after Minister of Finance, Nirmala Sitharaman said two-wheelers were neither luxury nor sin goods, and so merited a Goods and Services Tax rate revision
- Metal stocks rose sharply (16.3%) amid rising metal prices globally and signs of revival in demand
- Progress in vaccine development meant sentiment remained positive overall

Overall finance scenario

PFCE enters negative territory in Q1FY21

PFCE vs money supply (currency with public as % of nominal GDP)

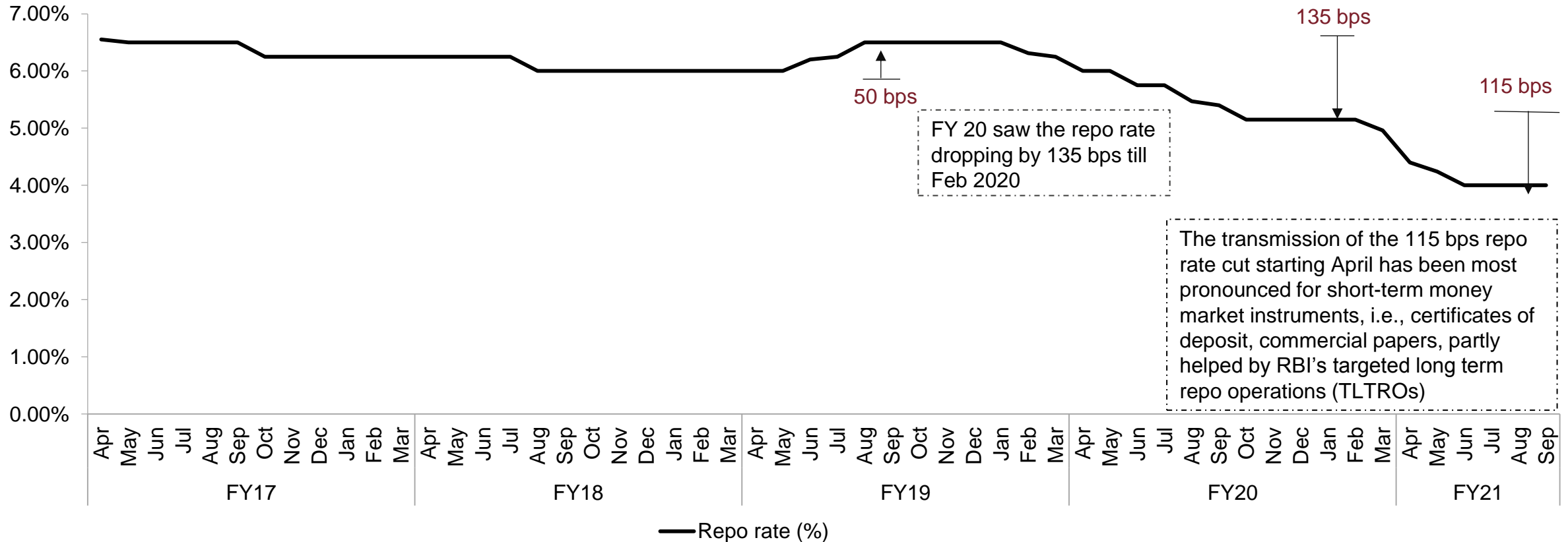


Note* - For representation purposes, quarterly Nominal GDP value has been kept similar to the annual GDP of their respective financial year.

Source: MOSPI, RBI, CRISIL Research

The monetary policy committee (MPC) keeps policy rates unchanged, with the repo rate at 4%

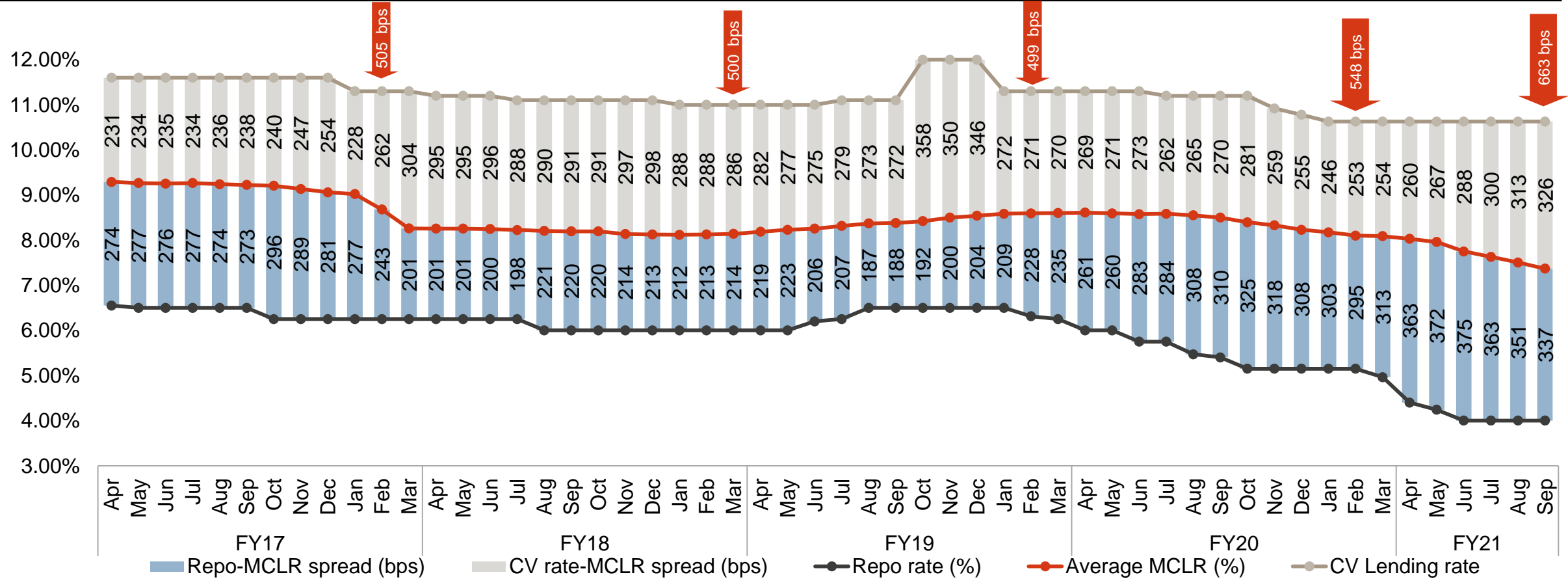
Repo rate trend



Source: CRISIL Research
 Note: Values denote the average for the month

Despite lower risk perception in the bond market, CV loan rates holding ground due to elevated GNPA's, moratoriums

CV lending rates v/s MCLR v/s Repo rates

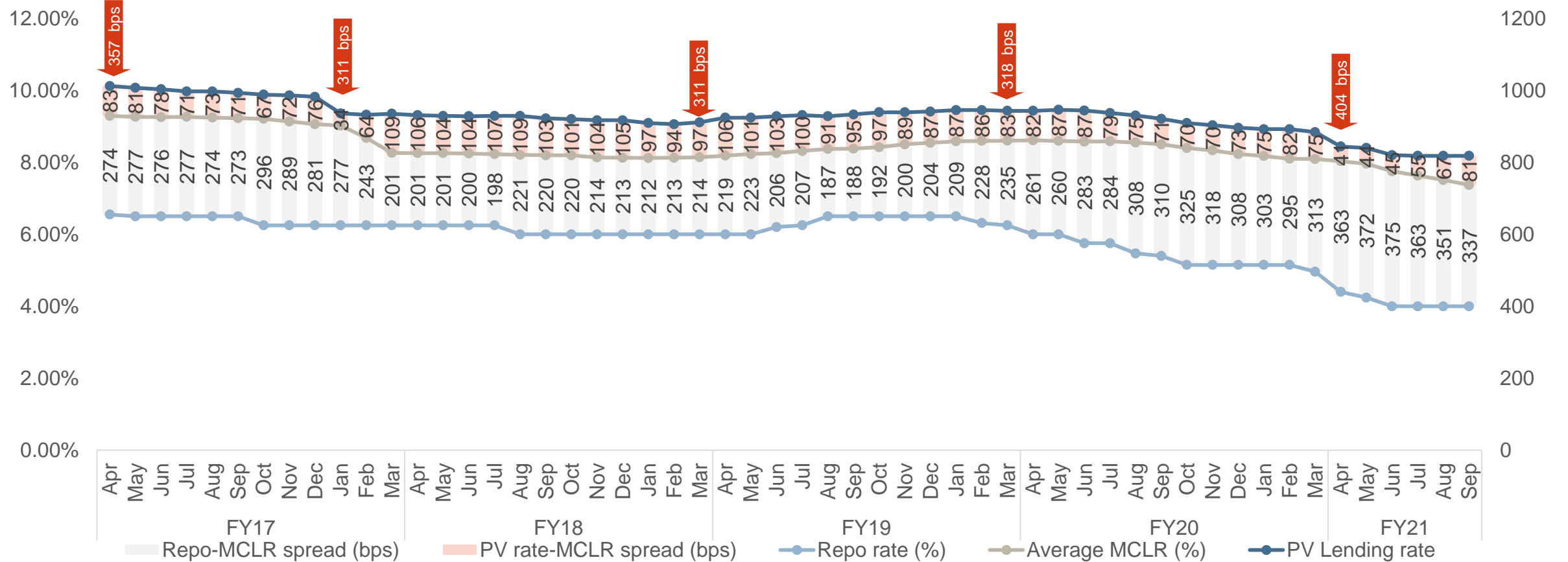


NOTE: Rates are average banks rates

Source- RBI, CRISIL Research

PV lending rates on a downward trajectory; PV portfolio performing better compared to other vehicle category

PV lending rates v/s MCLR v/s Repo rates



NOTE: Rates are average banks rates

Source- RBI, CRISIL Research

Indian Automobile Industry

Assumptions: Optimistic Scenario

- **Pandemic situation to improve; economic activities to revive further going forward; no expectations of a second wave of COVID19**
- **Healthy retail sales in festive season (Dussehra and Diwali) and gradual improvement in economic parameters thereafter. Support from manufacturers and financiers in liquidation of inventory to the dealers leaving the inventory at comfortable levels by end of festive.**
- **No further delays in announcements w.r.t. COVID19 vaccine which is to be available latest by Q1 FY22.**
- People starting to live with the pandemic and unlocking happening in the real sense in urban as well as rural centres.
- Not a major decline in finance availability from Q3 fiscal 2021. Gradual, recovery in disbursements almost back to pre-Covid levels
- **Crude oil prices are expected to average \$40-45 per barrel in fiscal 2021**
- Consistent support from government and RBI going forward too
- Consumption to lead recovery, private investment scenario to remain subdued; government to slowly gradually revive capital investments.
- Forecast for exports are based on above assumptions of Covid and economic situation.
- We have considered **RoDTEP** (Remission of Duties or Taxes on Exports Product) scheme (which will be applicable from Jan 1st 2021 onwards) to have similar incentive as compared to **MEIS** (Merchandise Exports from India Scheme).

Assumptions: Pessimistic Scenario

- **Inadequate support from stakeholders leading to lower than expected retail sales during festival, leading to an inventory pile up at the dealers' end. This will lead to dealer and financier sentiments turning extremely cautious going forward.**
- **Second wave/sudden surge in cases of COVID19 disrupting the unlock activity** could further add to the uncertainty, leading to quick change in sentiments going forward. Vaccine availability date pushed beyond Q4FY21/Q1FY22.
- High consumption regions like Mumbai, NCR, Bangalore etc. continue to face severe restrictions in movement on account of COVID19 cases
- **No further fiscal support by the government.** This in turn will **deepen the impact on discretionary spending** and further result in lower demand of non discretionary products also
- Limited/ Marginal support from the financial services community on account of sharp **increase in GNPA levels** post moratorium on account of cash flow issues faced by the customers
- **Further mark-down in global growth in case of uneven health recovery and premature austerity** in the face of a large rise in public debt in most countries

Auto industry to skid further in FY21; recover in FY22

Segments	FY20 (units)	YoY Growth (%)	FY21 (units)	YoY Growth (%)	FY21 (units)	YoY Growth (%)	FY22 (units)	YoY Growth (%)	FY22 (units)	YoY Growth (%)
Passenger vehicles ('000)	2.8	(18)%	2411-2460	(13)-(11)%	2242- 2301	(19)-(17)%	2865-2910	18-20%	2580-2625	14-16%
Two-wheelers (mn)	17.4	(18)%	15.0-15.3	(14)-(12)%	14.0-14.3	(20)-(18)%	16.6-16.9	10-12%	15-15.4	6-8%
Commercial vehicles ('000)	718	(29)%	520-534	(27)-(25)%	493-508	(31)-(29)%	815-830	55-57%	675-685	35-37%
Three-wheelers ('000)	637	(9)%	218-230	(66)-(64)%	204-216	(68)-(66)%	342-347	53-55%	289-294	40-42%
Tractors ('000)	710	(10)%	833-850	18-20%	805-825	14-16%	822-838	0-(2)%	758-773	(7)-(5)%

FY 21
Optimistic calls

FY 21
Pessimistic calls

FY 22
Optimistic calls

FY 22
Pessimistic calls

Annual forecasts – Domestic (y-o-y growth)

Vehicle segment	Subsegment	FY 20	Optimistic scenario		Pessimistic scenario	
			FY 21E	FY 22P	FY 21E	FY 22P
Passenger vehicles	Cars	(23)	(17)-(15)	17-19	(22)-(20)	15-17
	UVs and vans	(7)	(9)-(7)	20-22	(15)-(13)	13-15
	PVs	(18)	(13)-(11)	18-20	(19)-(17)	14-16
Two-wheelers	Motorcycles	(18)	(14)-(12)	9-11	(19)-(17)	5-7
	Scooters	(17)	(17)-(15)	11-13	(23)-(21)	9-11
	Mopeds	(27)	4-6	10-12	1-3	6-8
	2W	(18)	(14)-(12)	10-12	(20)-(18)	6-8
Commercial vehicles	SCV	(20)	(11)-(9)	39-41	(15)-(13)	24-26
	ULCV	(26)	(20)-(18)	75-77	(30)-(28)	44-46
	MHCV	(47)	(41)-(39)	75-77	(44)-(42)	44-46
	Buses	(7)	(84)-(82)	257-259	(84)-(82)	217-219
	CVs	(1)-(3)	(27)-(25)	55-57	(31)-(29)	35-37
Tractors		(10)	18-20	0-(2)	14-16	(7)-(5)
Three-wheelers	Goods	(13)	(24)-(22)	14-16	(29)-(27)	10-12
	Passenger	(8)	(75)-(73)	77-79	(77)-(75)	58-60
	3W	(9)	(66)-(64)	53-55	(68)-(66)	40-42

SOURCE: SIAM, CRISIL Research

Quarterly forecasts – Domestic (y-o-y growth)

Vehicle segment	Subsegment	Optimistic scenario				Pessimistic scenario			
		Q3 FY 21 E	Q4 FY 21 E	Q1 FY 22 P	Q2 FY 22 P	Q3 FY 21 E	Q4 FY 21 E	Q1 FY 22 P	Q2 FY 22 P
Passenger vehicles	Cars	(1)-1	17-19	368-370	10-12	(9)-(7)	2-4	315-317	4-6
	UVs and vans	3-5	23-25	243-245	10-12	(3)-(1)	5-7	188-190	0-2
	PVs	0-2	19-21	308-310	10-12	(7)-(5)	3-5	254-256	2-4
Two-wheelers	Motorcycles	10-12	21-23	189-191	1-3	3-5	0-2	152-154	(10)-(8)
	Scooters	13-15	28-30	241-243	(1)-1	(6)-(4)	22-24	195-197	(10)-(8)
	Mopeds	23-25	50-52	233-235	(8)-(6)	22-24	37-39	211-213	(14)-(12)
	2W	11-13	24-26	205-207	0-2	1-3	8-10	166-168	(10)-(8)
Commercial vehicles	SCV	(2)-0	56-58	367-369	30-32	(7)-(5)	44-46	296-298	7-9
	ULCV	(3)-(1)	56-58	972-974	97-99	(17)-(15)	28-30	578-580	23-25
	MHCV	(8)-(6)	16-18	868-870	97-99	(14)-(12)	4-6	672-674	57-59
	Buses	(80)-(78)	(78)-(76)	578-580	215-217	(80)-(78)	(78)-(76)	535-537	189-191
	CVs	(12)-(10)	27-29	462-464	52-54	(17)-(15)	15-17	364-366	23-25
Tractors		26-28	22-24	14-16	(11)-(9)	18-20	17-19	9-11	(16)-(14)
Three-wheelers	Goods	0-2	22-24	281-283	23-25	(7)-(5)	6-8	243-245	11-13
	Passenger	(68)-(66)	(47)-(45)	688-690	165-167	(73)-(71)	(51)-(49)	548-550	118-120
	3W	(57)-(55)	(34)-(32)	502-504	104-106	(61)-(59)	(40)-(38)	409-411	72-74

SOURCE: SIAM, CRISIL Research

Annual forecasts – Exports (y-o-y growth)

Vehicle segment	Subsegment	FY 20	FY 21E	FY 22P
Passenger vehicles	Cars	(5)	(41)-(39)	56-58
	UVs and vans	15	(1)-1	4-6
	PVs	0	(30)-(28)	36-38
Two-wheelers	Motorcycles	9	(18)-(16)	9-11
	Scooters	(7)	(39)-(37)	27-29
	Mopeds	(17)	(47)-(45)	42-44
	2W	7	(20)-(18)	11-13
Commercial vehicles	LCV	(28)	(25)-(23)	30-32
	MHCV	(63)	(38)-(36)	69-71
	Buses	(3)	(61)-(59)	109-111
	CVs	(39)	(35)-(33)	49-51
Tractors		(17)	(10)-(8)	14-16
Three-wheelers	Goods	2	(15)-(13)	12-14
	Passenger	(12)	(26)-(24)	13-15
	3W	(12)	(26)-(24)	13-15

SOURCE: SIAM, CRISIL Research

Passenger vehicles

Positive sentiments in H2 to restrict the drop in FY21; improvement expected in FY22 on a low base

Variables	FY18	FY19	FY20	FY21E	FY22P
Income for discretionary spending	F	F	NF	NF	N

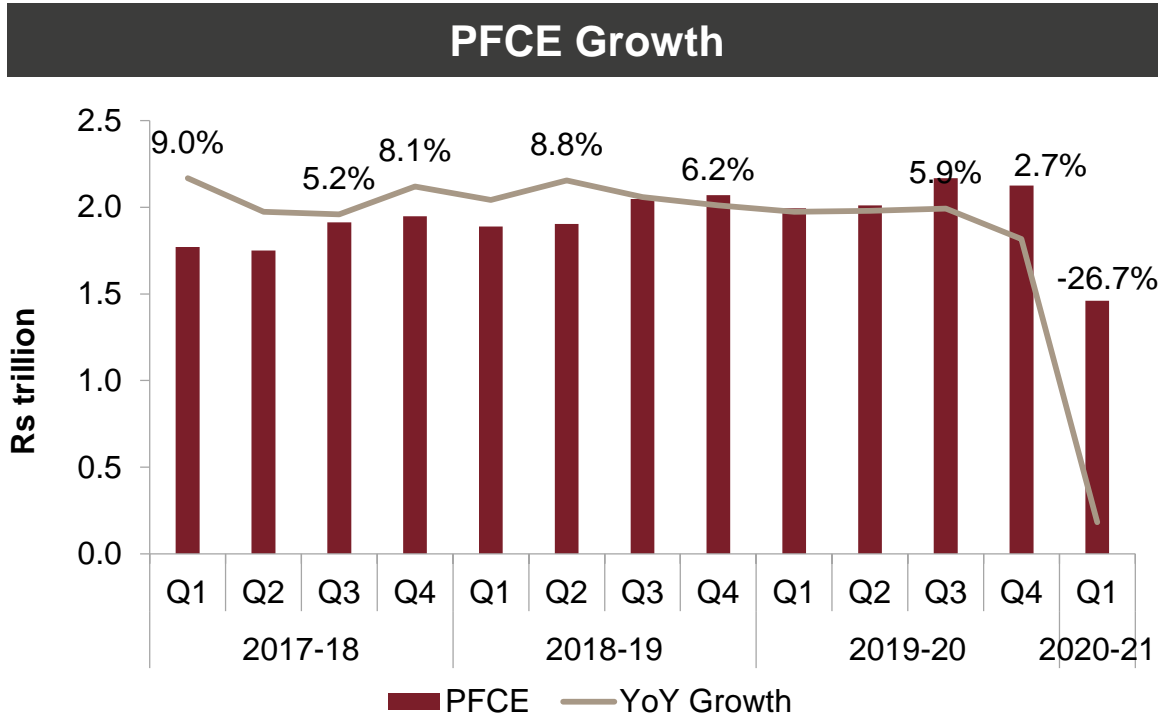
Variables	FY18	FY19	FY20	FY21 E	FY22 E
Cost of ownership	F	NF	N	N	N
Petrol / CNG Vehicles	F	NF	N	N	N
Diesel vehicles	F	NF	N	NF	NF
Interest rates	F	N	N	F	N

Variables	FY18	FY19	FY20	FY21 E	FY22 E
New model launches	N	NF	F	N	N
Regulations – passenger vehicles	F	N	NF	N	N
Impact on Overall Sales Growth	F	N	NF	NF	N

E: Estimates P: Projected

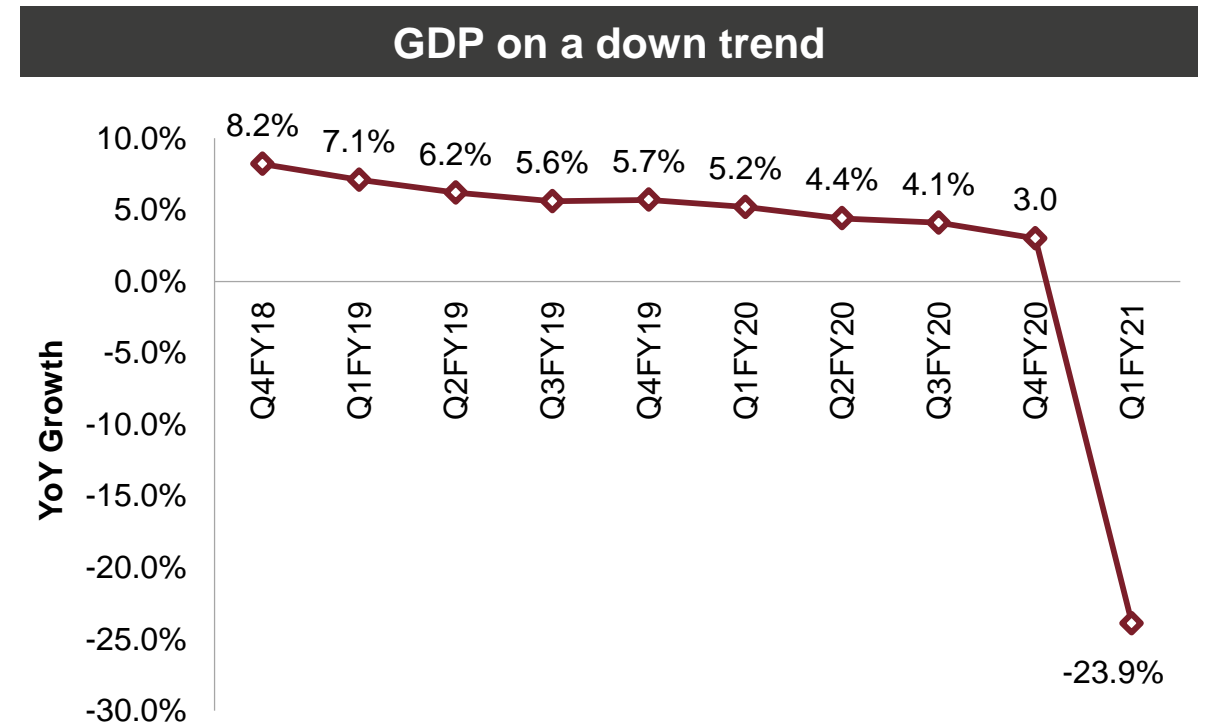
SOURCE: Industry, CRISIL Research

India sees worst ever GDP contraction in Q1; second quarter looks wobbly too



NOTE: PFCE – Private Final Consumption Expenditure
Source: MOSPI, CRISIL Research

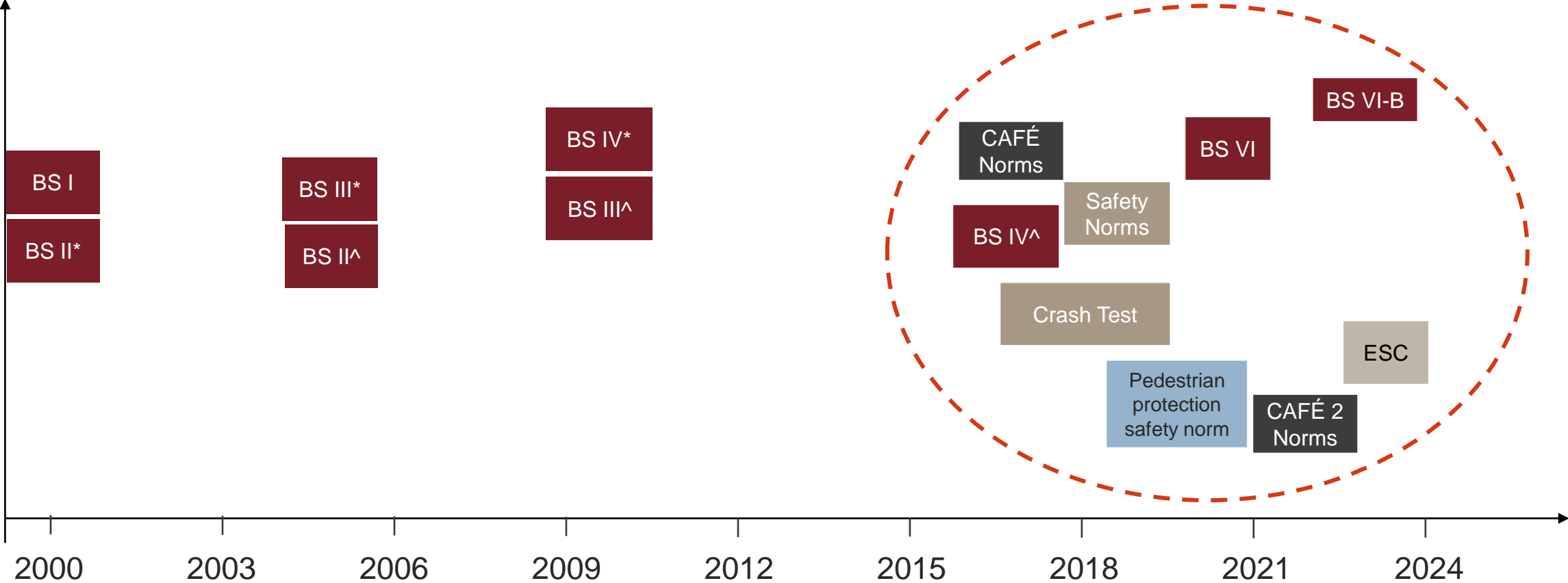
- Private consumption witnessed a sharp ~27% drop in Q1 pulling down the GDP growth along with it
- Investments painted an even more dismal picture and will take longer to recover with the government’s ability and the private sector’s willingness as well as ability to invest impaired



Source: MOSPI, CRISIL Research

- The intermittent regional lockdowns and curbs, coupled with the effects of a troubled global economy, resulted in the worst ever real GDP contraction on record of 23.9% on-year in the first quarter of fiscal 2021
- On the demand-side, government spending helped partially to stem the fall
- On the supply side, agriculture saved the day

Safety and emission norms to bring India on par with developed economies



NOTE: *- Introduction of norm in NCR and 13 cities

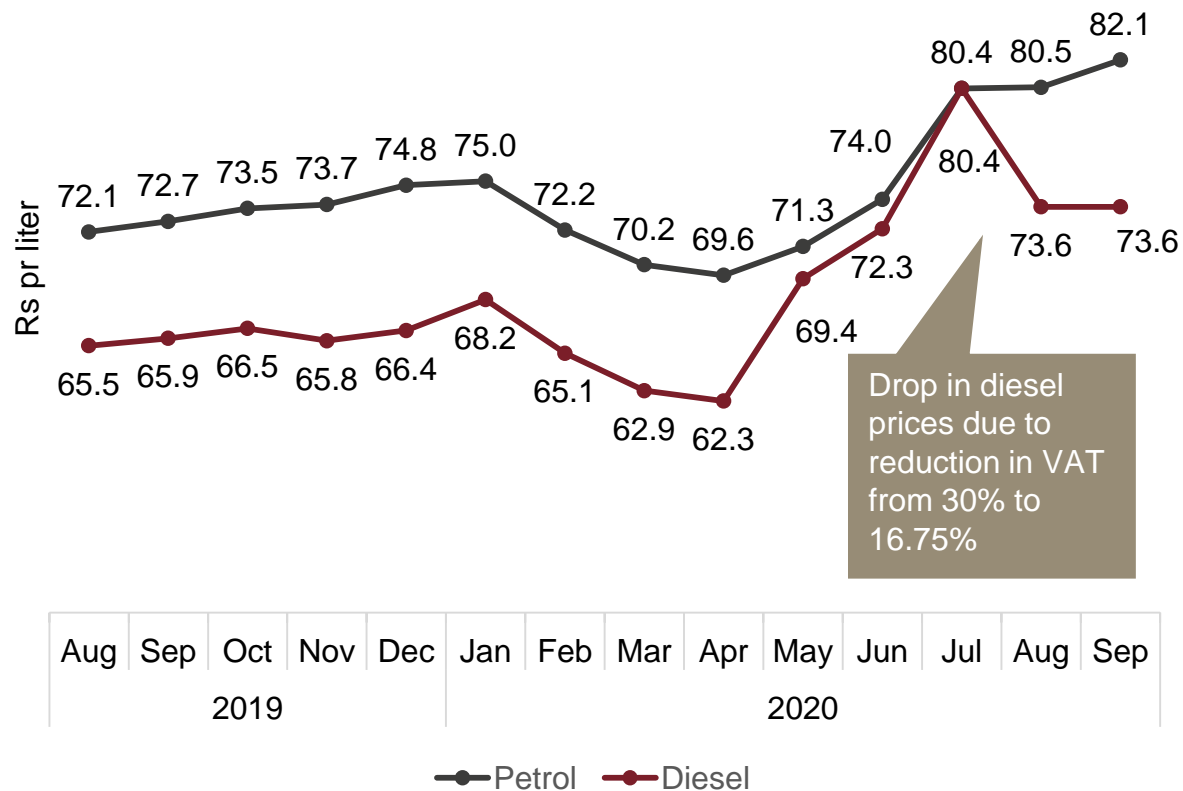
^- Nationwide implementation

BS – Bharat stage (Emission Regulations), CAFÉ- Corporate Average Fuel Efficiency, AEB - Autonomous Emergency Braking, ESC - Electronic Stability Control

Source: Industry, CRISIL Research

Periodic launches to provide the necessary kicker to demand amid rising fuel costs

Fuel prices



Note: Fuel prices in Delhi region
Source: Industry, CRISIL Research

Major upcoming launches

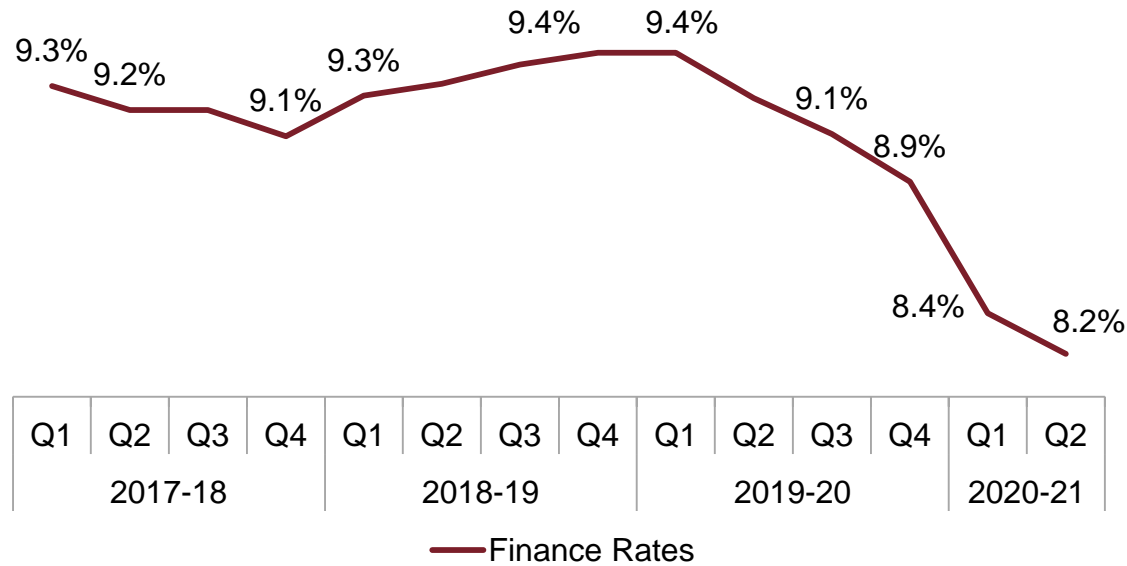
Company	Model	Segment
Maruti Suzuki	Swift 2020 facelift	Small Car
	XL 5	Small Car
Renault	Kiger (HBC)	UV
Mahindra	XUV300 Turbo Sportz	UV
	eKUV100	UV
	TUV300 facelift	UV
Tata	Altroz EV	Small Car
	Gravitas	UV
Hyundai	Elite i20 facelift	Small Car
Force	Gurkha	UV

- More launches in the UV segment has helped it outrun industry growth
- Virtual launches have become the order of the day
- From a trough during the lockdown period, fuel prices have regained pre covid levels

Source: Industry, CRISIL Research

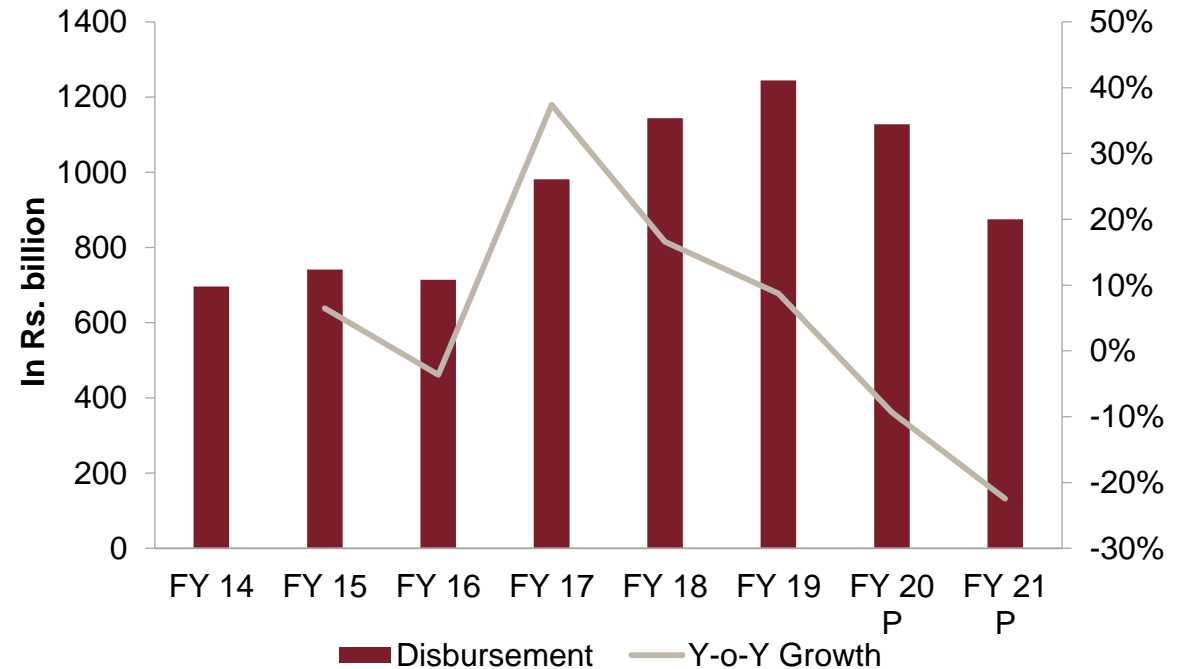
Despite continued drop in interest rates, pandemic impacted underlying demand, and in turn, disbursements in FY21

Interest rates



NOTE - Interest rates are an indicative rates charged by Banks
Source – CRISIL Research

Disbursement

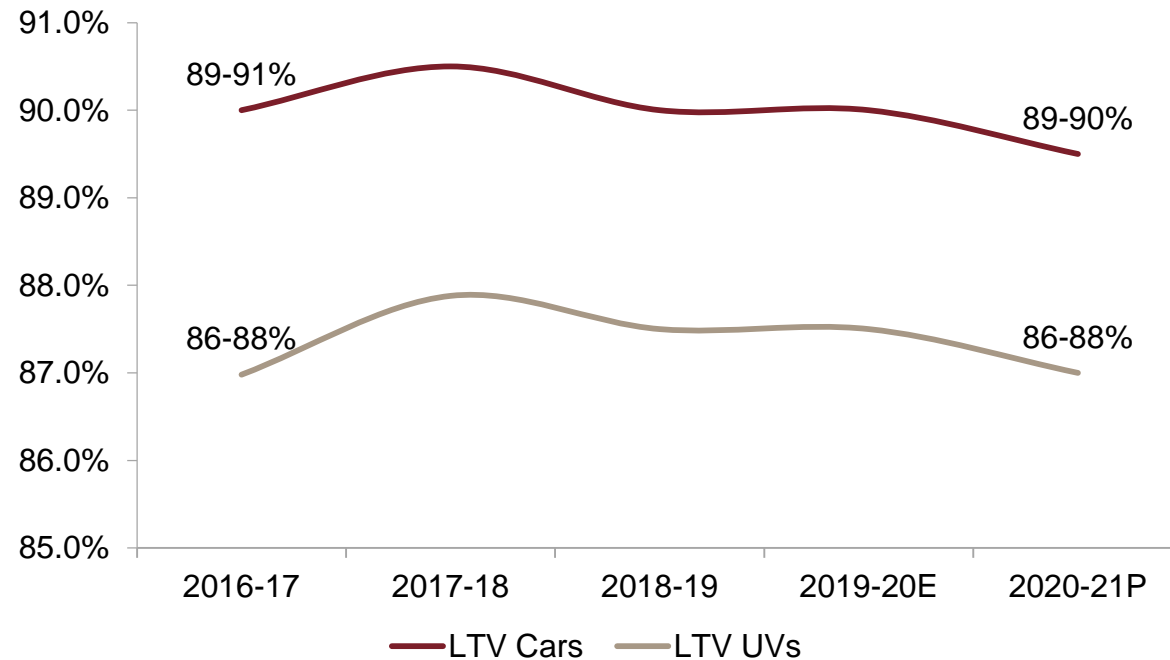


Source: Company Reports, CRISIL Research

- Higher reduction in interest rates (~70-90 bps) have been witnessed in PVs and TWs segment as income sentiments have not been as severely impacted for the buyer segment of these vehicles as compared to commercial vehicle customers
- However, continued y-o-y drop in underlying vehicle demand will pull the disbursements levels down in fiscal 2021
- Fiscal 2021 is expected to witness sharpest disbursement decline in the past six fiscals to the tune of -22% with underlying asset sales (wholesale) expected to see continued decline as well

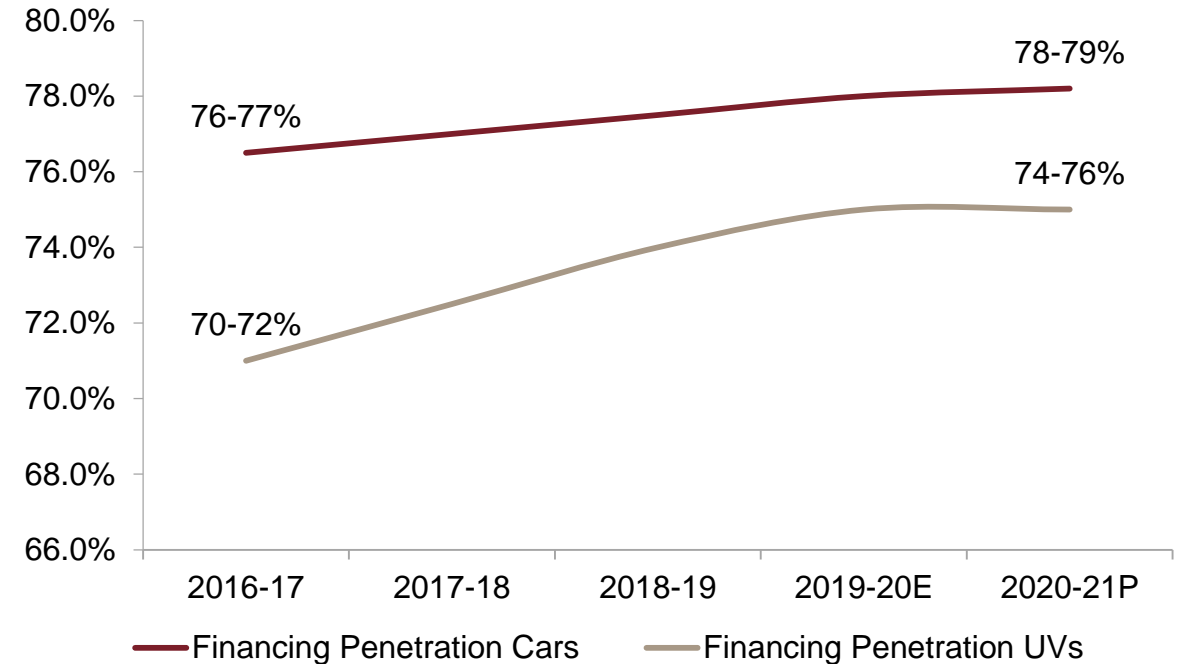
Lower share of loans under moratorium as well as low income uncertainty led to minimal LTV decline and higher interest rate reduction

Loan-to-value (LTV) for PV



Source: Industry, CRISIL Research

Financing penetration

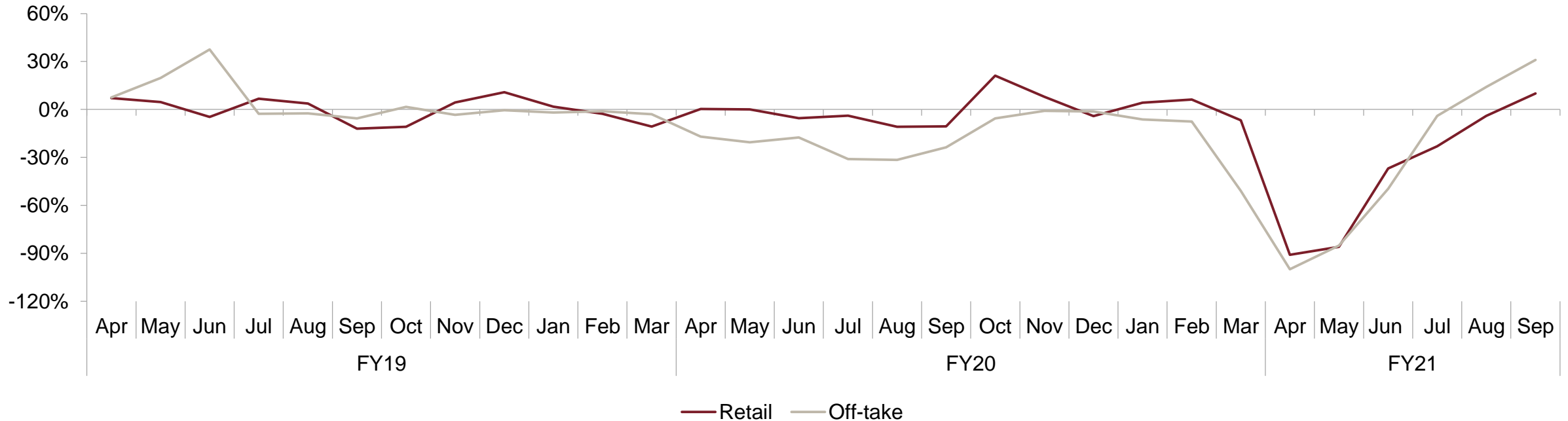


Source: Industry, CRISIL Research

- Decline in LTV is lower in PVs as compared to CVs as the risk is estimated to be comparatively lower
- We expect the finance penetration to remain range bound and increase gradually as more number of people will try to save cash and opt for finance in this uncertain situation.

Retail sales keep up their momentum while offtake improves at a much faster pace

Retail vs off-take (growth yoy)

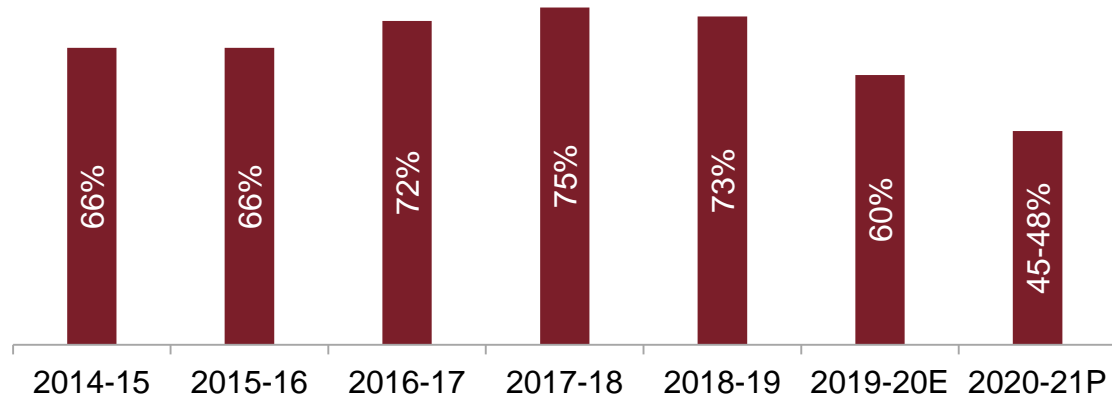


Source – Vahan, SIAM, CRISIL Research

- After a sharp drop in Q1 FY21 amidst lockdown, retail sales picked up pace in Q2; In fact, September registered 10% y-o-y growth
- Supply side issues including partial plant operations, unavailability of parts exerted pressure on Off take sales for longer
- However, wholesale bounced back much stronger with dwindling inventory levels with dealers in July & August
- With production levels normalizing with inventory built up for the festive season, off take improved at a sharp pace in Aug & Sep with September clocking 31% y-o-y growth

Pandemic to drag utilization to decade low levels in FY21

Utilization levels to sink further in FY21



Source: CRISIL Research Estimated

Upcoming projects

Player	Location	Capacity lacs units pa	Investment	Status
Suzuki	Hansalpur, Gujarat	7.5	Rs 185 B	Under implementation
Kia	Anantapur, AP	0.3	Rs 70 B	Under implementation
PSA	Chennai, TN	1	Rs 7 B	Planning

Source: Industry, CRISIL Research

Research

Player-wise capacity utilisation

Player	Effective Capacity (in '000) (on 31st Mar 2020)	Production (FY21) (in '000) (Apr- Sep)	Capacity utilization in FY21E (Apr-Sep)	Capacity utilization in FY21E (May-Sep)
Maruti	2,050	441	43%	52%
Hyundai	763	185	48%	58%
Tata Motors	564	62	22%	26%
Ford India	440	40	18%	22%
Renault-Nissan	480	34	14%	17%
General Motors	165	16	20%	21%
Toyota	310	18	12%	14%
Honda	300	26	17%	21%
Volkswagen	179	26	25%	34%
Kia Motors	300	64	42%	51%
Industry Total	3,091	985	32%	38%

Source: SIAM, CRISIL Research

Domestic – annual forecast

		Passenger vehicles	Cars	UVs and vans
Optimistic scenario	FY 20 volumes	2773	1698	1075
	YoY Growth in FY20	18%	23%	7%
	FY 21E volumes	2411-2460	1410-1445	980-1000
	YoY Growth in FY21E	11-13%	15-17%	7-9%
	FY 22P volumes	2865-2920	1670-1720	1190-1215
	YoY Growth in FY22P	18-20%	17-19%	20-22%
Pessimistic scenario	FY 21E volumes	2242- 2301	1,325-1,355	915-935
	YoY Growth in FY21E	17-19%	20-22 %	13-15 %
	FY 22P volumes	2580-2625	1530-1560	1055-1080
	YoY Growth in FY22P	14-16%	15-17%	13-15%

NOTE: Volumes in thousand units, growth in red circles indicates de-growth
 Source – SIAM, CRISIL Research

Domestic – quarterly forecast in optimistic scenario

Period		Passenger vehicles		Cars		UVs and vans	
		Volume (000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
FY20	Q3	785	(1)%	476	(9)%	309	15%
	Q4	655	(22)%	404	(23)%	251	(21)%
FY21E	Q1	154	(78)%	80	(82)%	74	(72)%
	Q2	692	12%	404	9%	288	15%
	Q3	789-805	0-2%	470-480	(1)-1%	318-324	3-5%
	Q4	781-795	19-21%	473-481	17-19%	309-314	23-25%
FY22P	Q1	625-632	308-310%	374-376	368-370%	250-255	243-245%
	Q2	761-777	10-12%	441-450	10-12%	315-320	10-12%

- Lockdown nearly washed away Q1 , retail & in turn off take sales took a major hit; supply issues pulled offtake further down
- Considerable down trading took place pushing sale of small ticket hatchbacks
- Unlocking economic activity, opening up of commercial centres, push from pent up demand as well as demand for recent launches impelled retail growth during Q2. Improving retail demand, normalising supply scenario & built up for the festive season provided a boost to Q2 offtake demand.
- Going ahead, given the current positive market sentiment, favourable festive season seems quite plausible. That will provide a much needed boost to the festive demand, restricting the drop in annual FY21 numbers and providing a firm platform for FY22.
- Now, the market response during the festive season remains a monitorable.
- UVs are expected to lead the growth backed by intermittent launches & feature laden competitively priced compact UV segment

Source – SIAM, CRISIL Research

Domestic – quarterly forecast in pessimistic scenario

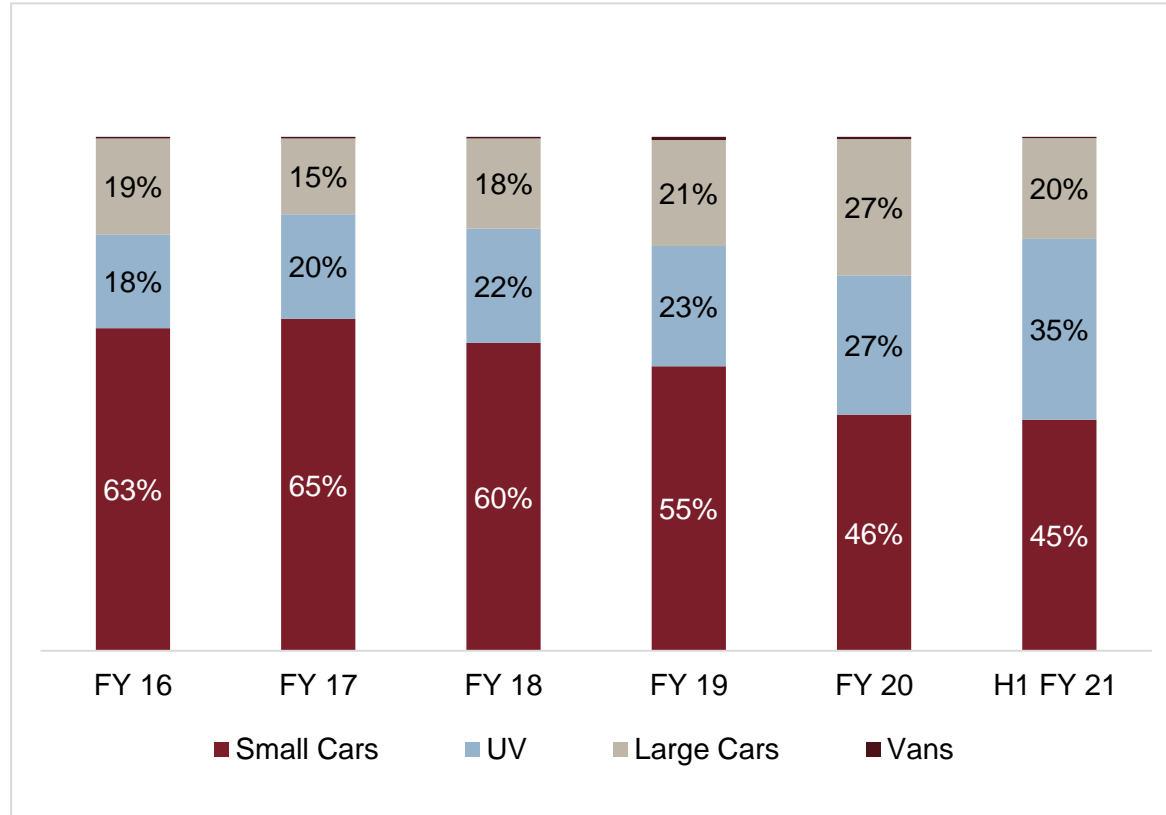
Period		Passenger vehicles		Cars		UVs and vans	
		Volume (000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
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	Q4	655	(22)%	404	(23)%	251	(21)%
FY21E	Q1	154	(78)%	80	(82)%	74	(72)%
	Q2	692	12%	404	9%	288	15%
	Q3	732-746	(7)-(5)%	432-440	(9)-(7)%	300-306	(3)-(1)%
	Q4	673-687	3-5%	397-405	2-4%	276-282	5-7%
FY22P	Q1	533-543	254-256%	314-320	315-317%	219-223	188-190%
	Q2	691-705	2-4%	408-416	4-6%	283-289	0-2%

- Although, we expect a bullish festive season; a second pandemic wave, fresh round of lockdowns or a gloomy economic environment can upend the festive demand expectations of Q3.
- Most dealers are building up inventory expecting favourable festive demand. Bleak retail during festive season will accumulate above average inventory at dealers' end impacting further offtake
- In such a scenario, we expect a much steeper drop in FY21 and a restrained recovery in FY22
- Significant down trading is also expected which will decelerate UV growth pace & push low priced basic hatchback sales

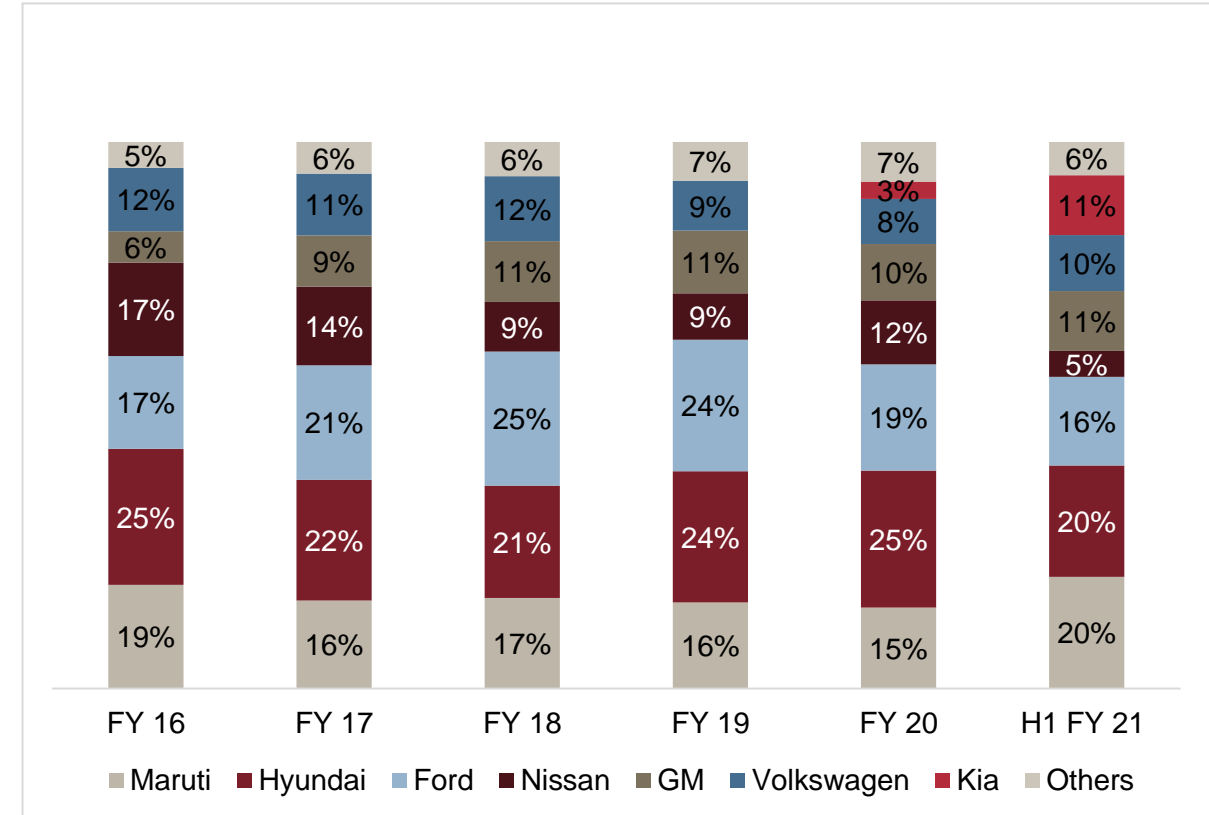
Source – SIAM, CRISIL Research

Exports records a sequential growth; however down on-year

Uvs gains substantial market share

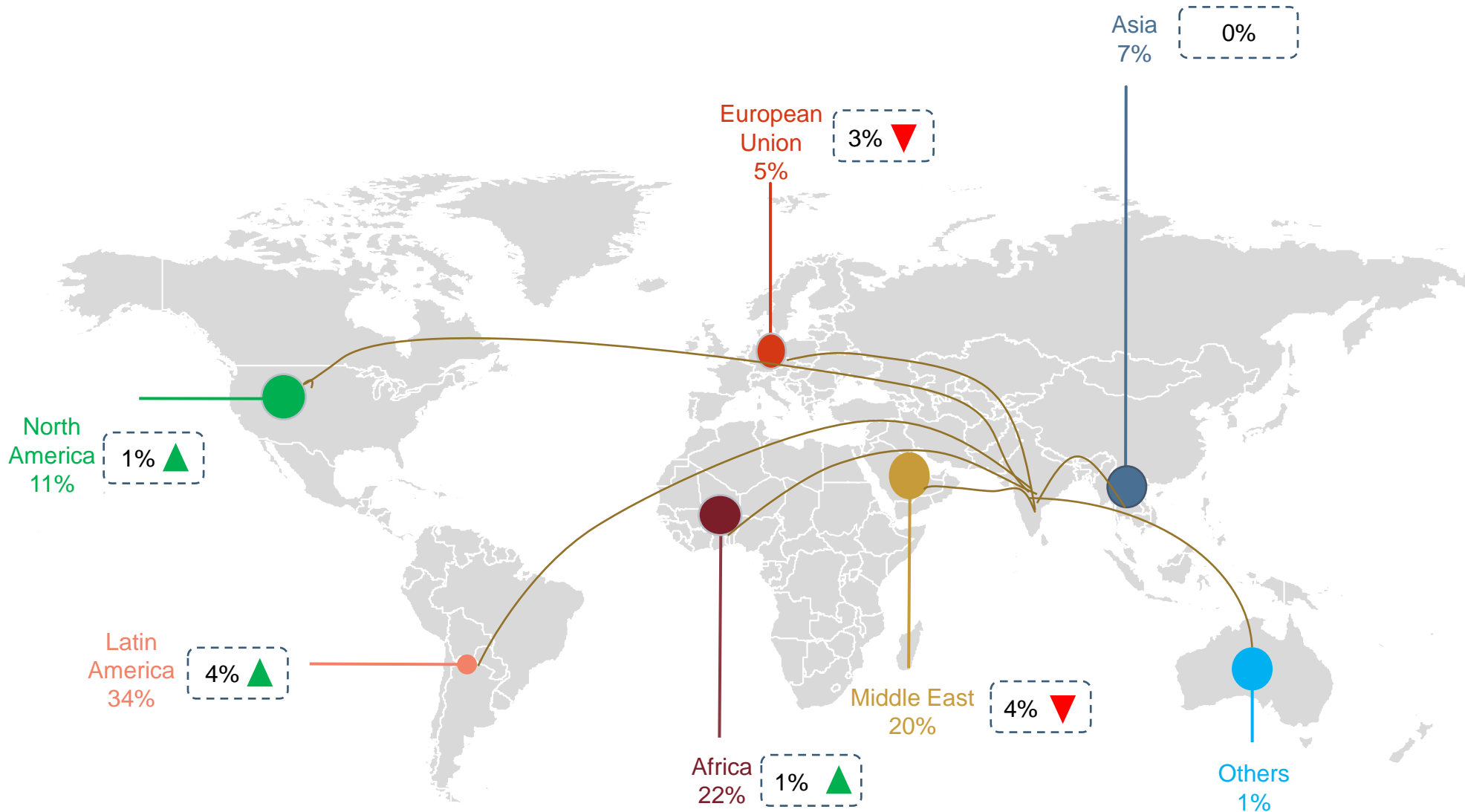


Maruti tops the pole position



- Passenger vehicle exports registered a de-growth of 59% in H1 FY21.
- Exports recorded a sequential improvement in exports, however since players are not operating on 100% utilisation level, their main focus is domestic market. Once, the supply chain resumes, we can expect growth in exports.
- Lower de-growth of 31% was seen on UV segment, mainly due to the role of new entrants like Kia.

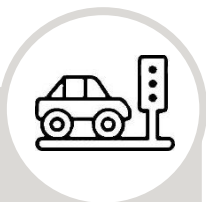
Passenger Vehicle Exports



- **Pandemic hit nations like LATAM and Middle East** led to de-growth of 59% in passenger vehicle exports in first half of fiscal 2021.
- Europe which had de-grown by 53% in fiscal 2020, remains stable.
- **Second wave of covid and fresh lockdowns in the underlying importing nations will remain a key monitorable.**

Stakeholder interactions

OEM



- Production has been streamlined & utilization on an improving trend
- Seeing positive market sentiments, retail to be favorable in Oct & Nov.
- Restarting of economic activities, social distancing, some pent up demand to boost retail
- **Offtake** to be healthy in October & gradually tapering in Nov & Dec. Q3 to at least match last year levels.
- To avoid sale loss due to further lockdown announcements, a slight push from OE side for inventory built up
- Pandemic fear backing demand for pre owned vehicles as well
- Seeing higher demand for budget cars while less takers for high end vehicles.
- We are hoping **RoDTEP** scheme to be similar to **MEIS**. In medium term, it wont have an impact on exports since pricing is fixed for booked orders. We are hoping that atleast the cost incurred due to **logistics inefficiency** is covered under RoDTEP.

Dealer



- Healthy m-o-m improvement in August retail demand, September demand relatively subdued due to *shradh & adhik mas*, especially in North & West
- Seeing some down trading post pandemic
- Most dealers have already started inventory building for festive season
- **Supply issues** have improved over the months, but facing availability issues with some popular models like Creta, Baleno
- Normal 25-30 day inventory with dealers
- No sizable increase in discounts in Sep; no discounts being offered on popular models
- High hopes for festive demand, retails expected to reach last year's levels
- New launches to aid demand

Financier



- Post RBI rate cut, financing rates reduced by 100-150 bps from July end
- For good profiles 7-8% interest rates being offered
- On the other hand, lending is also being done cautiously; few risky customer profiles especially the ones impacted due to lockdown are being avoided
- Only 8-10% of the customers who opted for moratorium in phase 2, have continued with it. Rest shifted to normal EMIs to avoid additional interest.
- Some more schemes expected for the festive season
- Financier incentives not expected to act as a demand creator but as an additional benefit only,

Two-wheeler

Two wheeler industry to remain under stress

Variables	FY 2018	FY 2019	FY 2020	FY 2021 E	FY 2022P
Income for discretionary spending	F	F	NF	NF	N

Variables	FY 2018	FY 2019	FY 2020 E	FY 2021 F	FY 2022 E
Cost of ownership	F	NF	N	NF	N
Interest rates	F	N	N	F	N

Variables	FY 2021 F	FY 2022 E
Fuel injector vehicle	NF	N
E- Carburetor vehicle	N	N

Variables	FY 2018	FY 2019	FY 2020 E	FY 2021 F	FY 2022P
Regulations – 2 wheelers	F	NF	N	NF	N

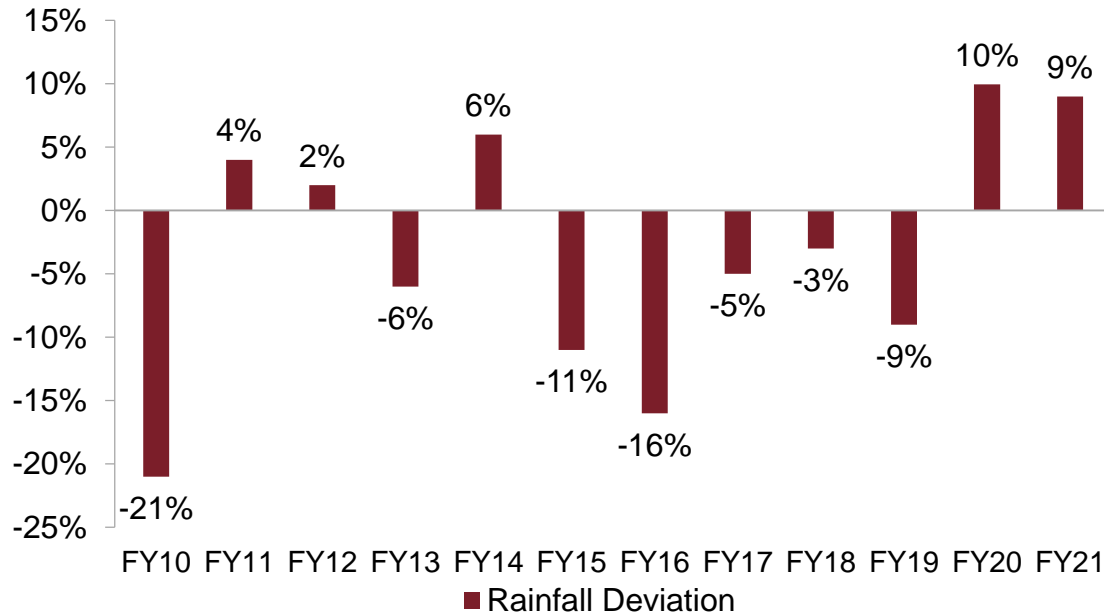
Impact on Overall Sales Growth	F	N	NF	NF	N
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NF: Not Favorable, F: Favorable; N: Neutral

E: Estimates P: Projected

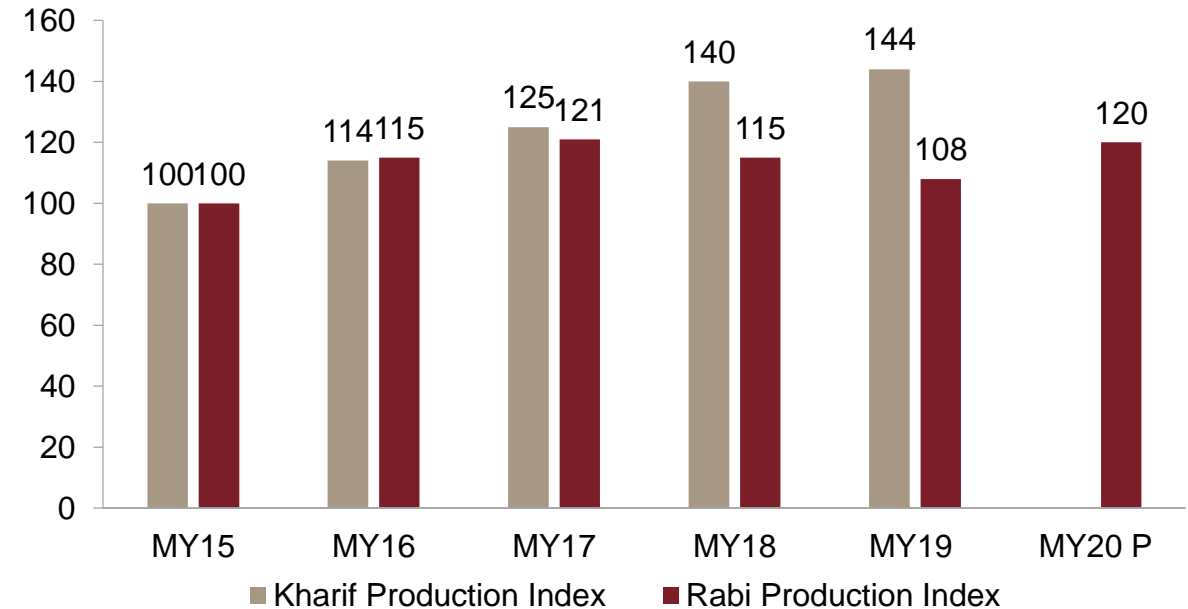
Better farm sentiment and government income support schemes keep rural sentiment buoyant

FY21 – an excess monsoon year



NOTE: Rainfall deficiency in the range of -10% to 10% of the long period average is considered as normal as per IMD. P: Projected
Source : IMD, CRISIL Research

Bumper kharif production; positive rural sentiments



MY: Marketing year, P: Projected

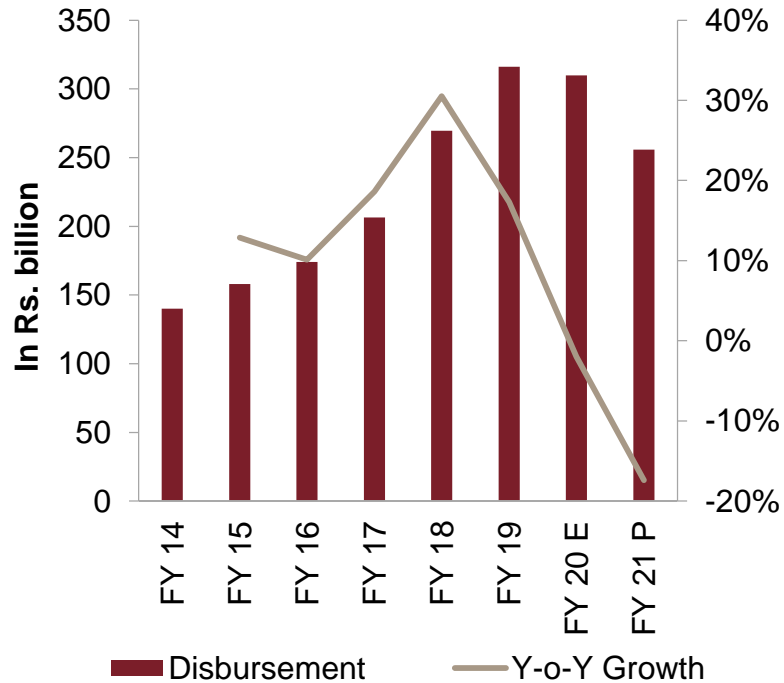
Notes: 1) Base of 100 for Index (kharif and rabi) taken in MY Jan-Dec 2015

Source: Ministry of Agriculture, CRISIL Research

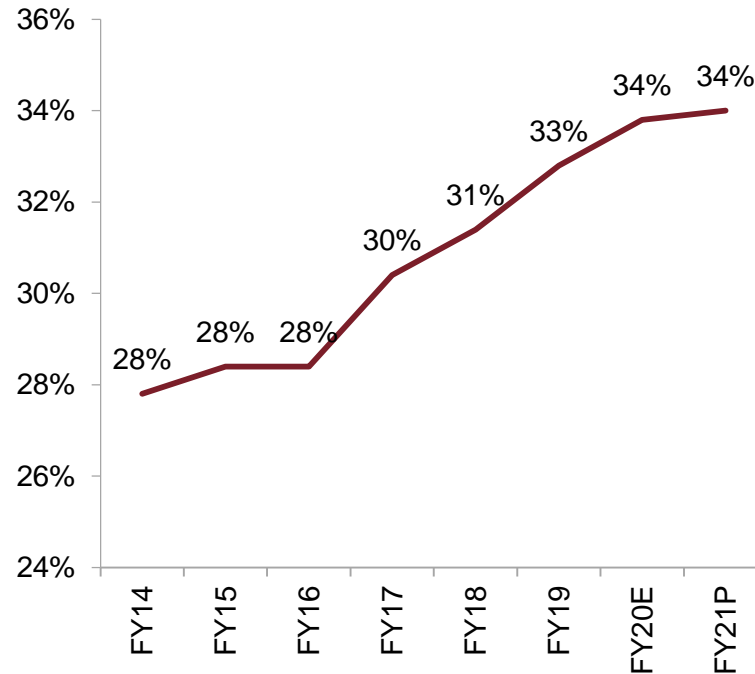
- Kharif crop output is exceptional due to higher sowing, above normal monsoon and hence healthy reservoir levels. Also, bumper yield of rabi has led to increase in cash flow with the farmers.
- Higher procurement through central and state government supports rural agri income.

Gloomy outlook for two-wheeler financing this fiscal

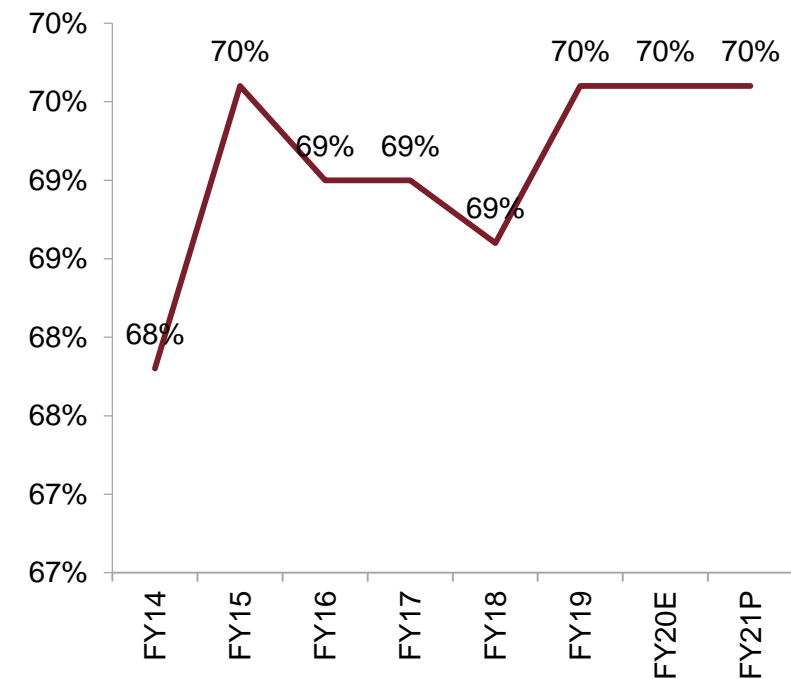
Disbursement



Auto finance penetration



Loan-to-value

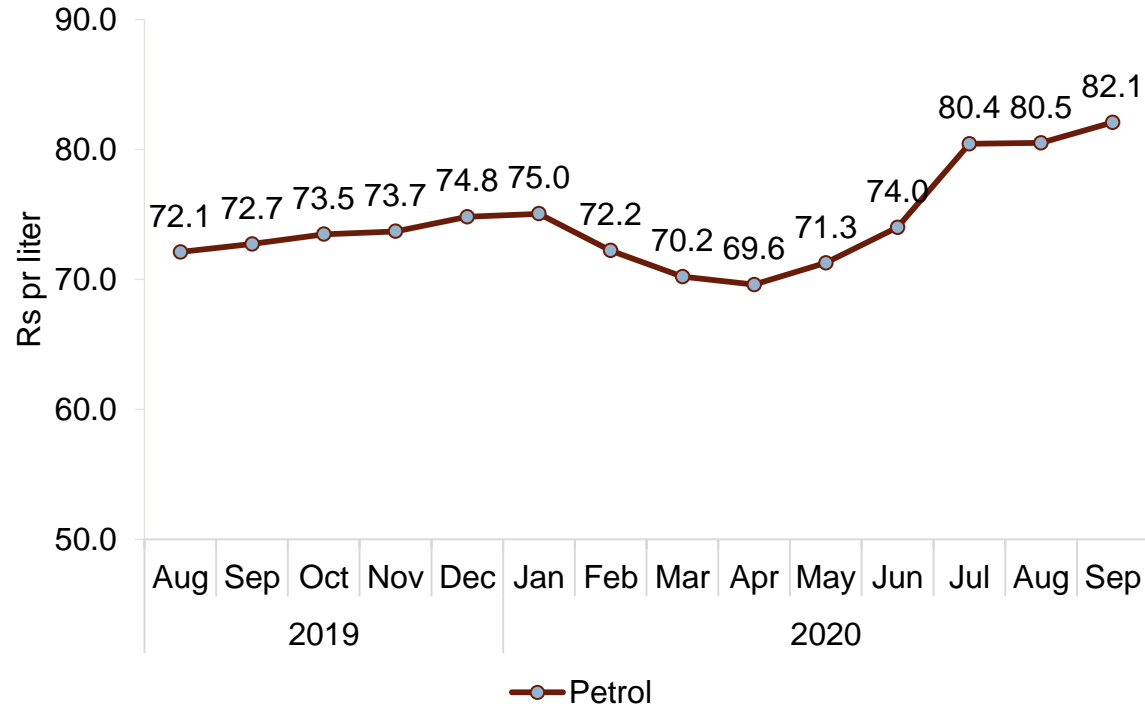


Source: Experian Credit Bureau, Company Reports, CRISIL Research

- Fiscal 2021 to see a sharp decline of 16-18% in disbursement due to more number of people in rural preferring cash payment and financiers getting selective in lending
- Loan-to-value (LTV) ratio will continue to be subdued as purchasing power of borrowers has taken a hit in the weakening economic environment
- Financing penetration is expected to remain range-bound

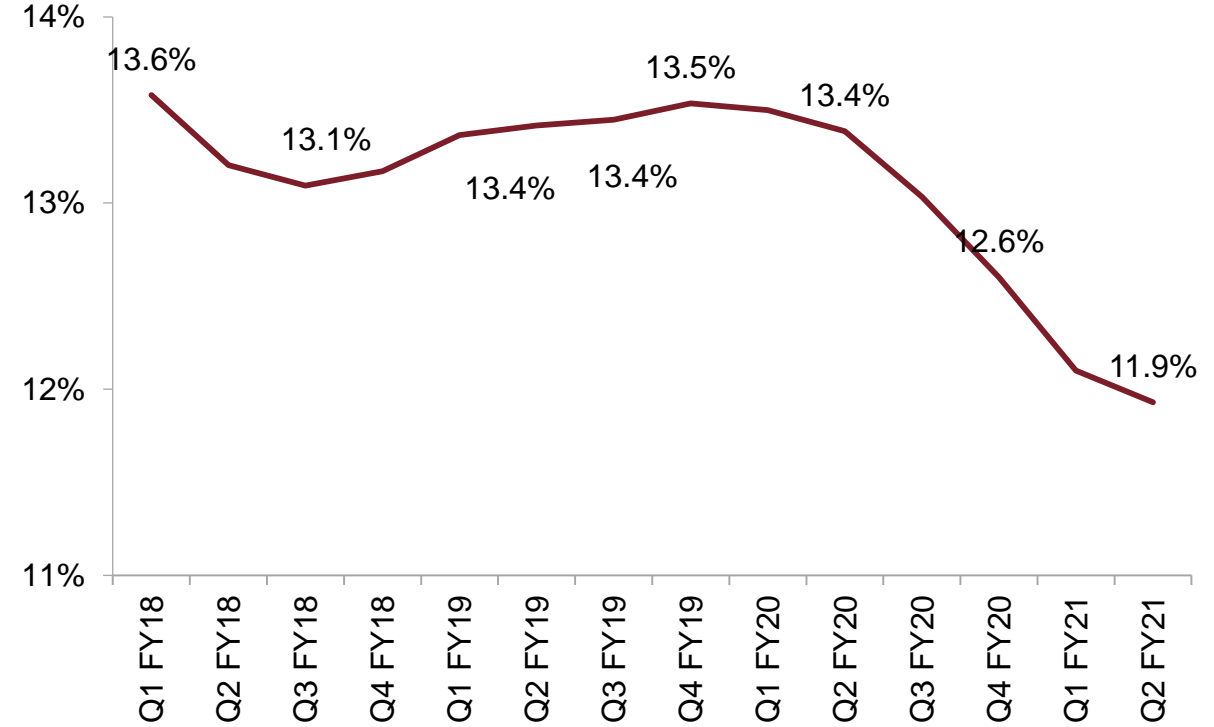
Spurt in taxes fuels rise in petrol prices post Lockdown 1.0

Petrol Prices



Note: Fuel prices in Delhi region
Source: Industry, CRISIL Research

Interest Rates

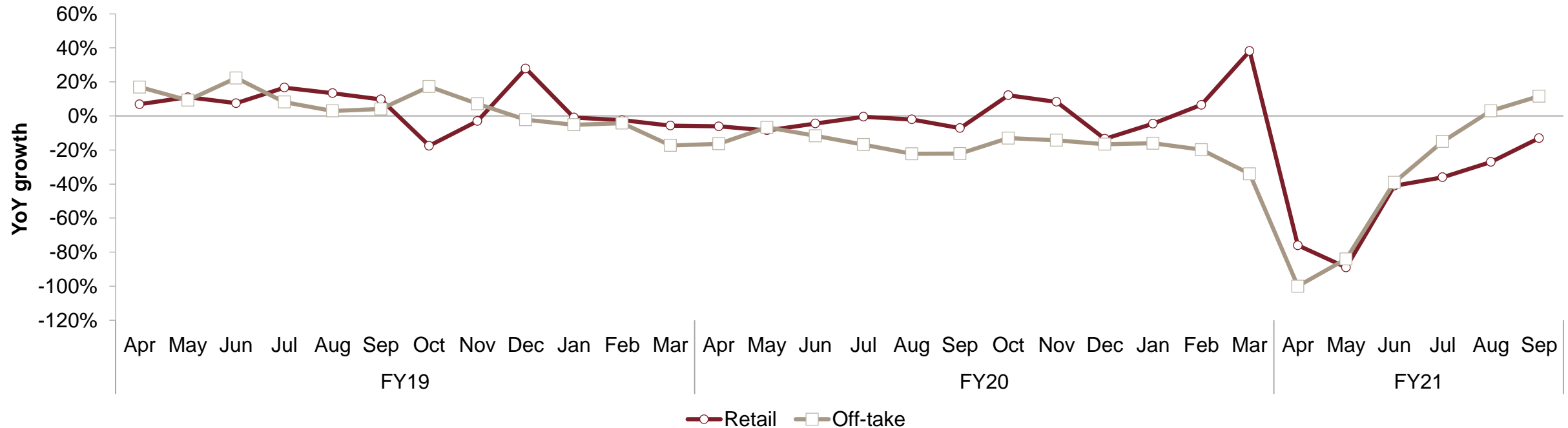


NOTE - Interest rates are an indicative rates charged by Banks
Source - CRISIL Research

- Petrol prices are continuing to rise despite a fall in global crude oil prices due to the increase in taxes to tackle the slowdown in demand during lockdown
- Interest rates have been on a declining trend since June 2019, however, entire repo rate cut has not been passed to the consumer. Defaults in two-wheeler portfolio is high since majority of the customers are blue-collared workers who have lost jobs. Going forward, interest rate are not expected to decline.

Retail remains in negative territory; wholesale clocks positive growth for two consecutive months

Retail vs off-take (Growth yoy)

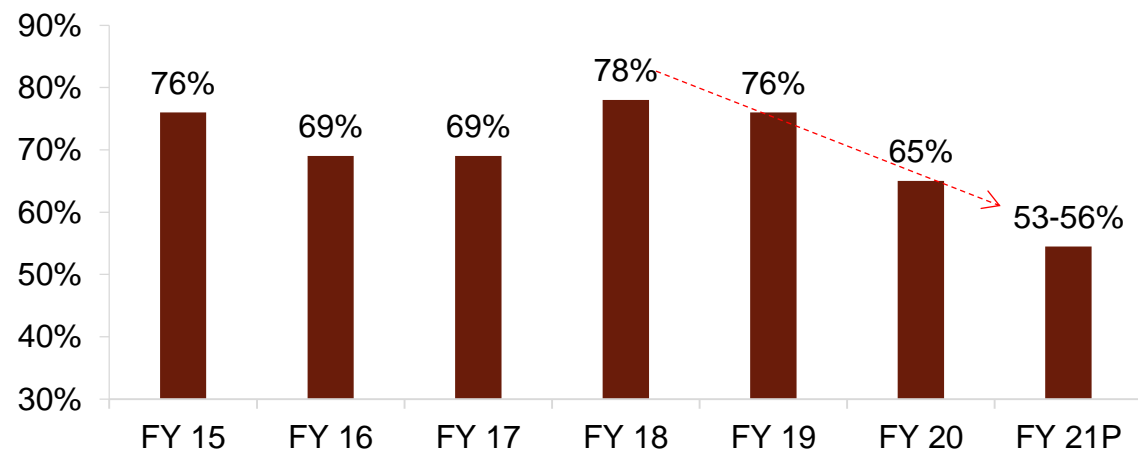


Source – Vahan, SIAM, CRISIL Research

- Off-take has been in the positive trajectory since Aug 2020. Supply chains have normalized to great extent, however not yet completely. OEMs started built up of stocks for festive in the month of Sept, sept wholesale registered a growth of 12% yoy.
- Retails lagged and continued to be in negative territory because the pent up demand has cooled off and due to adhik maas and pitrupaksh in the month of Aug and Sept, which was a festival season in 2019.

Capacity utilisation at all time low in FY21

Utilisation rates on a downward trajectory



Expected capacity additions

Player	Location	Capacity million units	Investment (in crore)	Commissioning
Okinawa	Alwar, Rajasthan	1	200	Planning

Hero Motocorp has deferred its expansion plan due to expected lower production and sufficient installed capacity.

SOURCE: Industry, CRISIL Research

Capacity utilisation across players

Player	Effective Capacity estimate in mn (as on 31st Mar 2020)	Production (Apr-Sept) (in mn)	Capacity utilization (Apr-Sept) (%)	Capacity utilization (May-Sept) (%)
Hero Motocorp	11.0	2.33	42%	51%
Bajaj Auto	5.4	1.34	50%	59%
HMSI	6.4	1.40	44%	52%
TVS Motor Company	3.9	1.06	54%	65%
India Yamaha Motors	1.6	0.27	34%	40%
Suzuki Motors	1.1	0.19	34%	41%
Royal Enfield	0.95	0.20	42%	51%
Piaggio Vehicles	0.3	0.03	17%	21%
Other Players	1.55	-	N.A	N.A
Industry Total	32.2	6.82	42%	51%

Note : Capacity utilization estimates of Bajaj Auto and TVS Motor Co Ltd exclude three-wheelers

Domestic – annual forecast

		Two-wheelers	Motorcycles	Scoters	Mopeds
Optimistic scenario →	FY 20 volumes	17.4	11.2	5.6	0.64
	YoY Growth in FY20	18%	18%	17%	28%
	FY 21 E volumes	15.0-15.3	9.7-9.9	4.6-4.7	0.66-0.67
	YoY Growth in FY21E	12-14%	12-14%	15-17%	4-6%
	FY 22P volumes	16.7-16.9	10.7-10.9	5.2-5.4	0.73-0.75
	YoY Growth in FY22P	10-12%	9-11%	11-13%	10-12%
Pessimistic scenario →	FY 21E volumes	14.0-14.3	9.0-9.3	4.3-4.4	0.64-0.65
	YoY Growth in FY21E	18-20%	17-19%	21-23%	1-3%
	FY 22P volumes	15.1-15.3	9.6-9.8	4.7-4.9	0.68-0.70
	YoY Growth in FY22P	6-8%	5-7%	9-11%	6-8%

NOTE: Volumes in million units;

YoY Growth in red indicates a negative growth

YoY Growth in green indicates a positive growth

Source – SIAM, CRISIL Research

Domestic – quarterly forecast in optimistic scenario

Period		Two-wheeler		Motorcycles		Scooters		Mopeds	
		Volume (mn)	YoY Growth	Volume (mn)	YoY Growth	Volume (mn)	YoY Growth	Volume ('000)	YoY Growth
FY20	Q3	4.22	(15)%	2.71	(15)%	1.35	(14)%	163	(25)%
	Q4	3.51	(25)%	2.26	(26)%	1.10	(20)%	144	(34)%
FY21E	Q1	1.29	(74)%	0.90	(73)%	0.34	(78)%	54	(68)%
	Q2	4.72	1%	3.15	8%	1.38	(16)%	197	20%
	Q3	4.70-4.78	11-13%	2.97-3.03	10-12%	1.52-1.55	13-15%	201-205	23-35%
	Q4	4.36-4.43	24-26%	2.73-2.78	21-23%	1.41-1.43	28-30%	212-215	50-52%
FY22P	Q1	3.94-3.97	205-207%	2.60-2.62	189-191%	1.16-1.17	241-243%	179-180	233-235%
	Q2	4.72-4.82	0-2%	3.18-3.24	1-3%	1.36-1.39	(1)-1%	182-186	(8)-(6)%

Source – SIAM, CRISIL Research

- Recovery of economy coupled with positive sentiments during festive, we expect the industry to register a positive growth in Q3 and Q4 of fiscal 2021 and hence end the year with the de-growth of 12-14%.
- Motorcycle is expected to grow in the similar range aided by need of personal mobility plus healthy cash flows in rural region to drive the sales.
- Unlocking of urban centres, opening up of schools and colleges by Q3 and more number of workplaces resuming will drive sales in scooter category. Scooter is expected to de-grow by 15-17% in fiscal 2021.
- Healthy demand for mopeds on a abysmal low base is expected to drive mopeds growth by 4-6% in fiscal 2021.
- In fiscal 2022, we expect the industry to recover by 10-12% after seeing a de-growth in last two financial years.

Domestic – quarterly forecast in pessimistic scenario

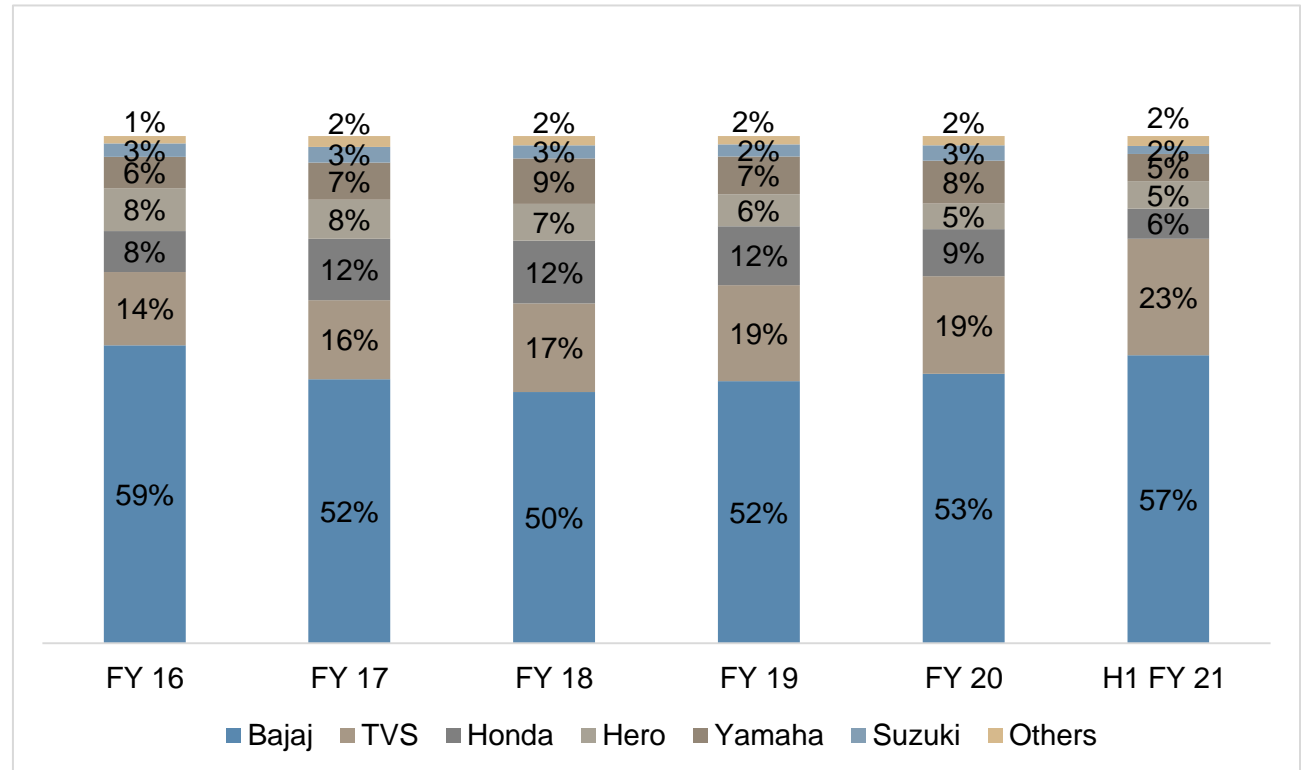
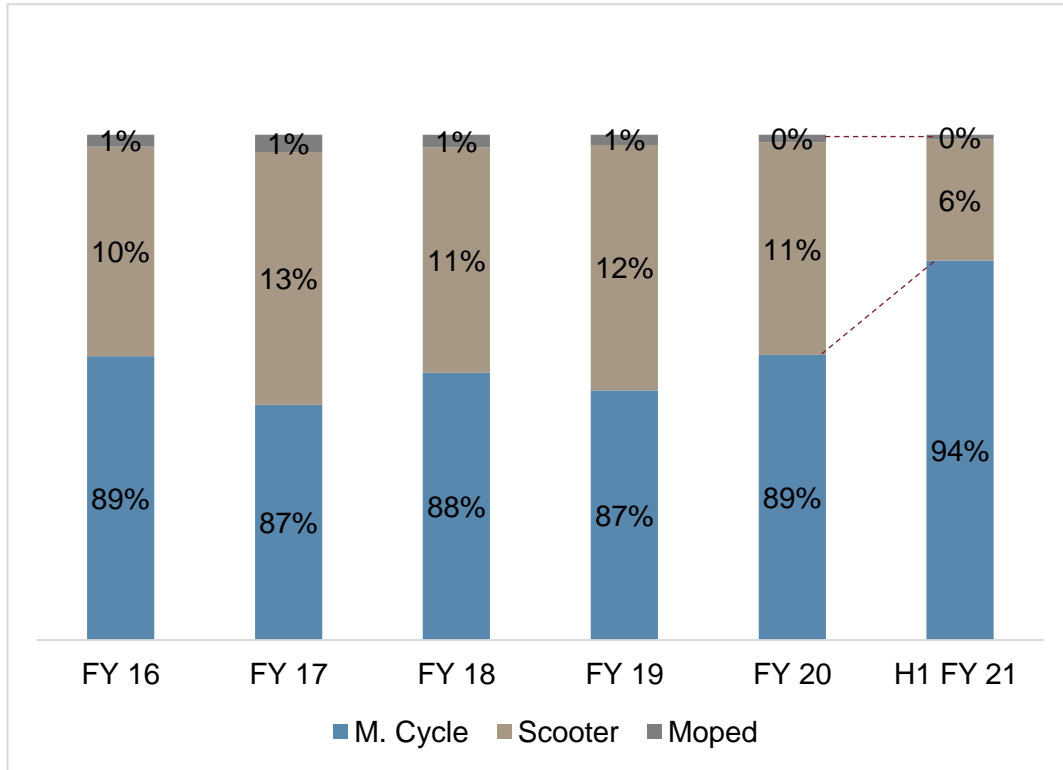
Period		Two-wheeler		Motorcycles		Scooters		Mopeds	
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	Q2	4.72	1%	3.15	8%	1.38	(16)%	197	20%
	Q3	4.26-4.35	1-3%	2.80-2.86	3-5%	1.26-1.29	(6)-(4)%	200-203	22-24%
	Q4	3.79-3.86	8-10%	2.25-2.30	0-2%	1.34-1.36	22-24%	194-197	37-39%
FY22P	Q1	3.44-3.47	166-168%	2.27-2.29	152-154%	1.00-1.01	195-197%	167-168	211-213%
	Q2	4.23-4.32	(10)-(8)%	2.82-2.88	(10)-(8)%	1.24-1.27	(10)-(8)%	170-174	(14)-(12)%

Source – SIAM, CRISIL Research

- Lower retails during Navratri, will lead to higher inventory at dealer end. This is expected to lead to rationalization of inventory. In such situation, we expect Q3 to be slight positive, cushioned more by motorcycle as compared to scooters.
- Motorcycle is expected to perform relatively better due to rural demand and need for personal mobility. However, financing will remain a constraint due to higher expected GNPA levels. In downside, it is expected to clock a de-growth 17-19%
- If schools and colleges continues with online classes and work from home situation persists, we expect scooter to see a higher de-growth of 21-23%.
- In fiscal 2022, we expect the industry to recover albeit at lower pace of 6-8%.

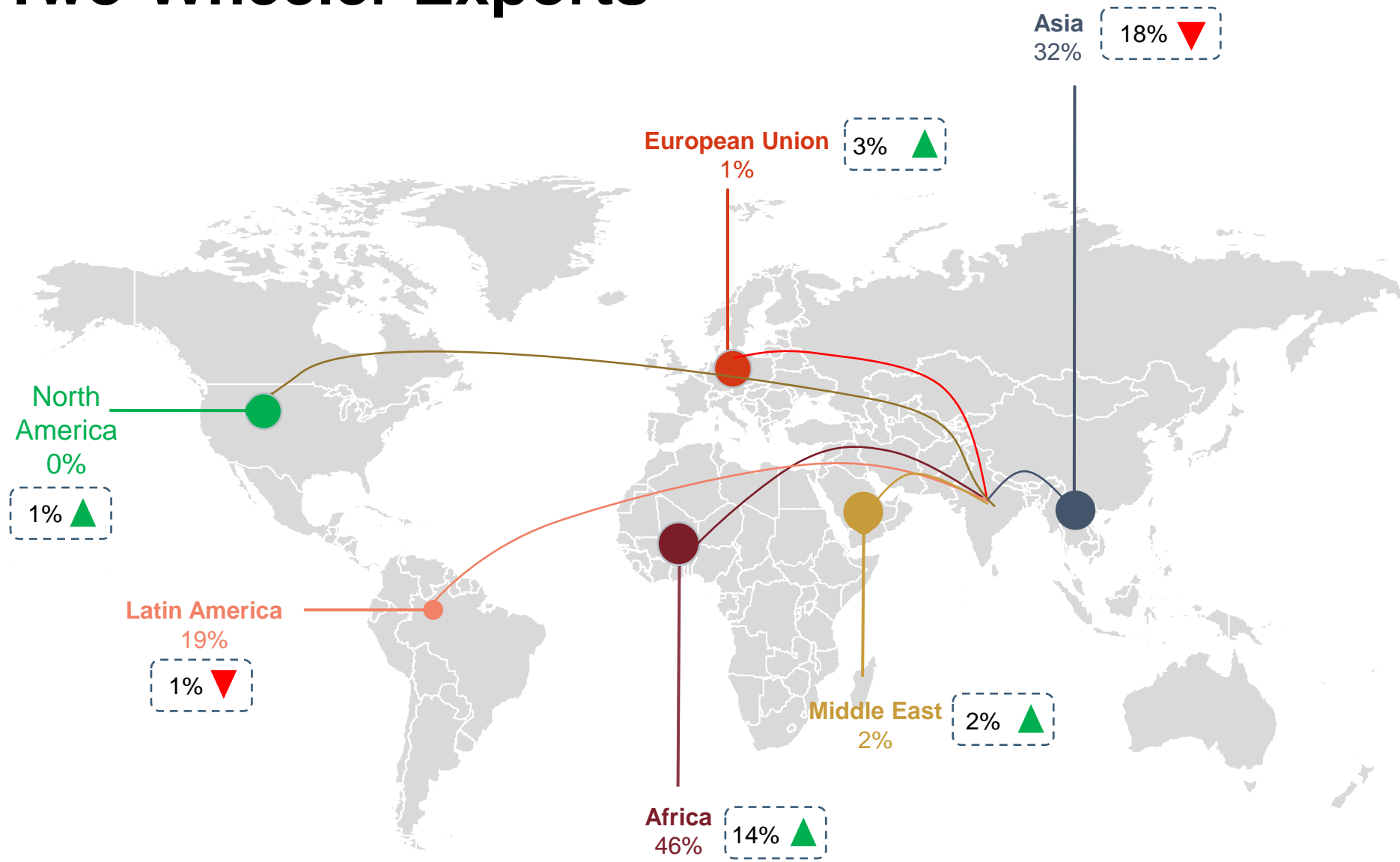
Motorcycle provided cushion to the 2w exports

Share of motorcycle zooms up in H1 FY21



- Two-wheeler exports declined by 38% in H1 FY21. Higher decline was seen in scooters and mopeds, it declined by ~67% whereas motorcycle exports declined by 35%.
- Motorcycle saw a lower decline since Covid spread in African market is lower compared to other exporting markets.
- Scooters which are mainly exported to Asian countries, saw a sharper de-growth, plus the supply constraints at leading scooter manufacturer provided a further dent.

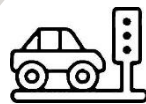
Two-Wheeler Exports



- **Firming up of oil prices** proved favorable to two-wheeler exports, in addition to lower spread of covid in African regions.
- In most of the African nations, motorcycle is used as a taxi which continues to grow.
- Two-wheeler in **LATAM is now used for personal commute due to social distancing** requirement.
- Lockdown due to CoViD and geopolitical tensions in Asian countries led to de-growth in exports of two-wheeler.
- **Srilanka, continues to ban imports of non-essential items.**

Stakeholder interactions

OEM



- Currently they are in **wait and watch mode**, betting on how sales during Navratri takes place.
- **Oct is expected to clock higher wholesale** compared to Sept. Nov and Dec are expected to be a lean period.
- Overall, expecting Q3 to be slightly positive mainly on motorcycle front. On scooter front, pickup is not yet witnessed. **Pickup will be seen after schools and colleges opens up.**
- Q4 will largely depend on overall economy. Industry for next year will depend on covid spread and availability and distribution of vaccine.
- Witnessed a **pickup in sale of second hand two-wheeler** mainly in tier 3 cities and smaller towns. This has led to cannibalization of some amount of sale.
- **Moped's expected to grow in positive territory.** Demand mainly from rural and tier II and tier III cities, vehicle used as a last mile delivery.

Dealer



- Higher push compared to retail has led to inventory built up for festive. **Inventory levels have gone up by end of Sept.** On an average, should be 40-45 days.
- Lower demand in Sept was on account of **pitrupaksh** which is considered inauspicious mainly in north and western parts.
- Another reason cited by the dealers for lower footfall was **anticipation of discounts during festive season.** Currently not much discounts available from OEM side. Hence, some demand has been postponed.
- Dealers are expecting festive to bring some cheer to the sales. However, their expectation has fallen mainly due to lower retails in Sept. Retail in Sept down by 20-30% yoy for most of the dealers.
- **Due to fast spread of Covid specially in rural area, where earlier the spread was less, people there are conserving cash in fear of catching the virus.** Hence, currently the sale is mainly need based to maintain social distancing.

Financier



- Many customers are buying in cash rather than taking finance, mainly to save interest cost.
- Post the unlock phase, financiers were more stringent in lending, like reduction in LTV was seen. Now, the **stringency is back to pre-Covid** situation, however, **higher emphasis is given to good CIBIL score.**
- Few financiers have seen higher stringency in credit appraisal due to rising defaults. They have even started **repossessing** the vehicles and selling as second hand vehicles.
- Complete pass on of repo rate cuts is not seen due to 2w portfolio being a riskier one.
- seen due to 2w portfolio being a riskier one.

Source – Industry, CRISIL Research

Commercial vehicles

Overview of end-use segments – cargo

Segments (% Growth Y-o-Y)	FY 17	FY 18	FY 19	FY 20	FY 21 P (Current)	FY 22 P (Current)
Coal (production)	3.0	3.0	7	1	(5)-(3)	7-8
Iron ore (production)	25	3	3	19	(17)-(15)	12-17
Steel (consumption)	3.1	8	9	1	(20)-(17)	10-15
Cement (consumption)	1.9	9	12	(2)	(13)-(10)	12-14
Roads (Km constructed / day)	7	8	9	11	9.5-10.5	9.5-10.5
Port (traffic)	5.6	6.5	4.5	1-2	(8)-(6)	4-6
Two-wheelers (domestic sales)	6.9	14.8	5	(17)	(14)-(16)	11-13
Passenger vehicles (domestic sales)	9.2	8	3	(18)	(13)-(11)	18-20
Consumer durables (consumption)	6.6	5.8	7	5	(35)-(30)	45-50
E-retail	22	35	35-37	23	0-1	30-35
RMG (market size)	17	5	8	(3)	(35)-(30)	40-45

Core Sectors

Discretionary Products

Source: CSO, RBI, SIAM and CRISIL estimates E: Estimated; P: Projected

Overview of end-use segments

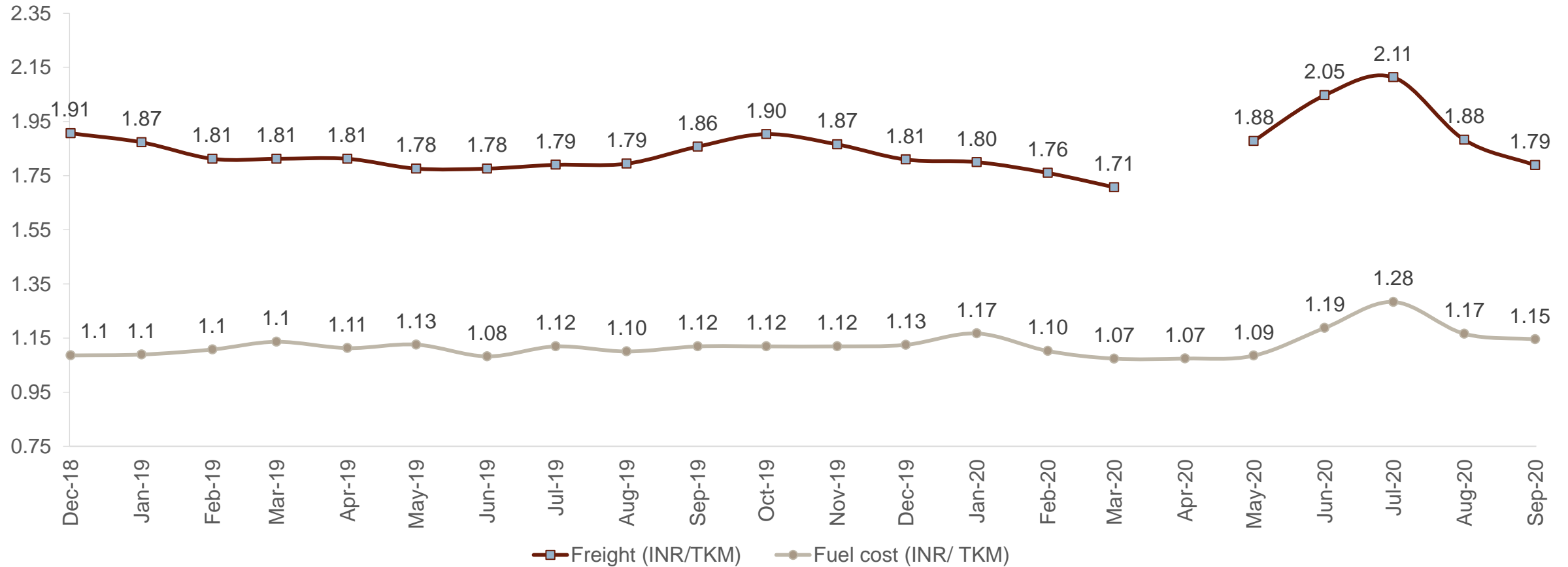
Segments (% growth Y-o-Y)	FY17	FY18	FY19	FY20	FY21E (Current)	FY22P (Current)	
Dairy (production)	5.8	6.7	6	(3)	7-9	6-8	Non - Discretionary Products
FMCG	5	8	12	5	0-1	13-15	
Pharmaceuticals (market size)	5	1	15	11	8-9	9-11	
Gross school enrollment							Buses
K-12	77.5	74.3	73.2	73.5	73.8	75	
Above K-12	22.6	22.6	23.2	23.7	24.3	24.9	
IT employee base	4	3	4	4	(4)-(2)	2-4	
Air passenger traffic	16	16	11	(2)	(65)-(60)	70-75	
Hotel room demand	7	5	5	3	(55)-(50)	50-55	

Note – Gross enrollment ratio (GER) is the ratio of the number of students enrolled to the population of those who qualify for the particular grade level. K-12 indicates classes 1st – 12th.

Source: NASSCOM, AAI, CRISIL Research

Freight rates and diesel prices have stabilized after seeing a peak in July

Freight rates vs Diesel prices

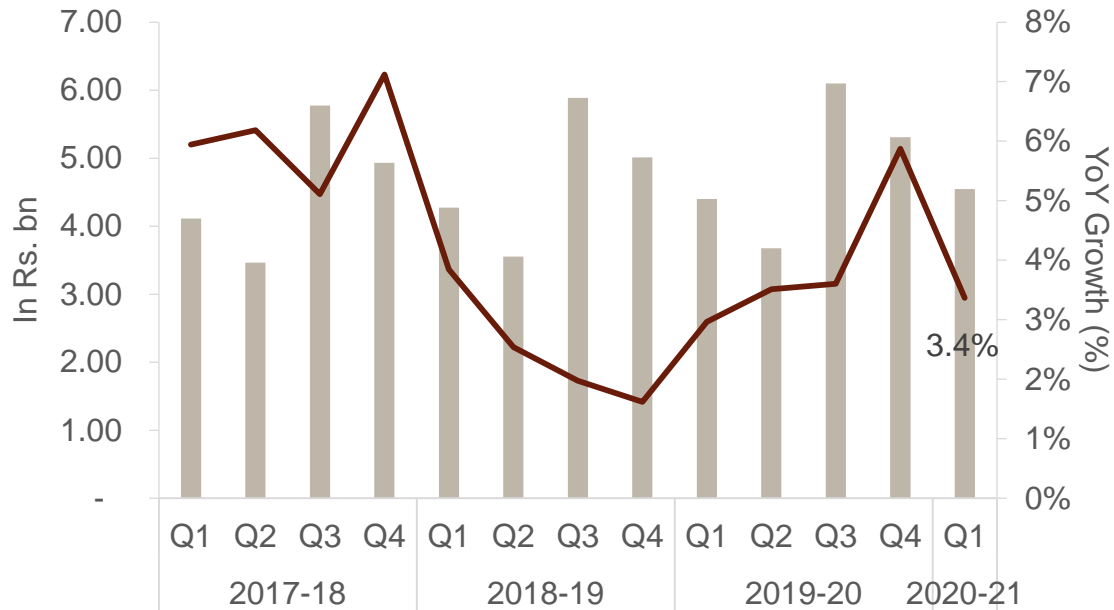


Source: PPAC, IFTRT, CRISIL Research

Note: (i) The estimated freight rate data is a representative of average freight rates from Delhi to 24 locations across India for a 9T payload truck

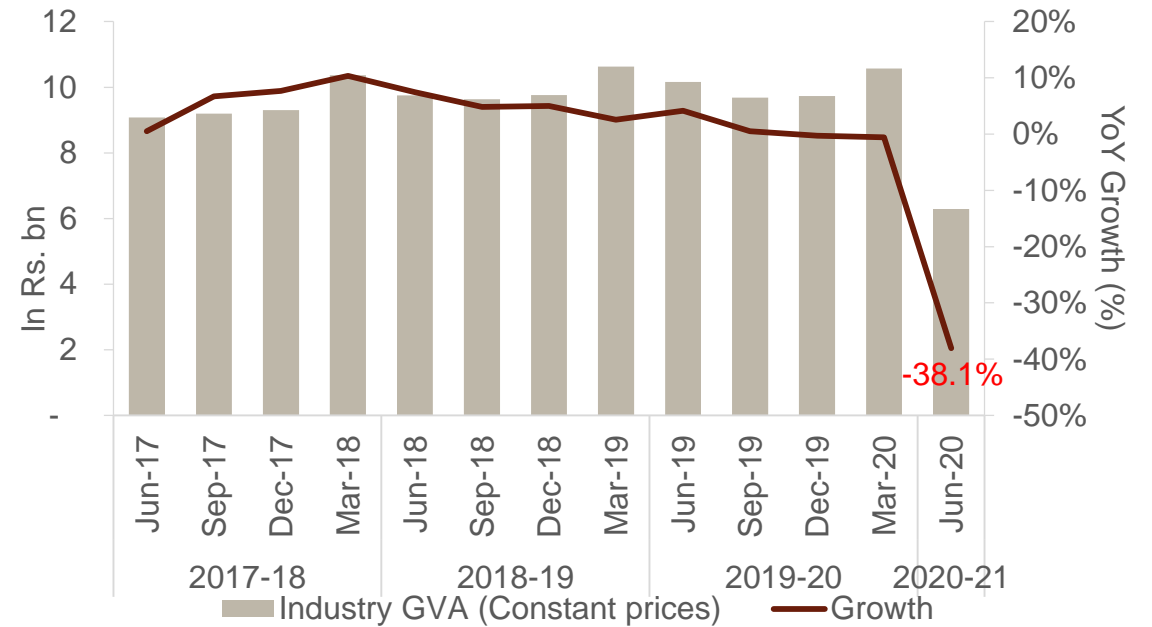
Industry GVA nosedives in Q1 of FY2021; agri provides some cushion

Agriculture GVA growth



Source: MOSPI, CRISIL Research

Industry GVA growth

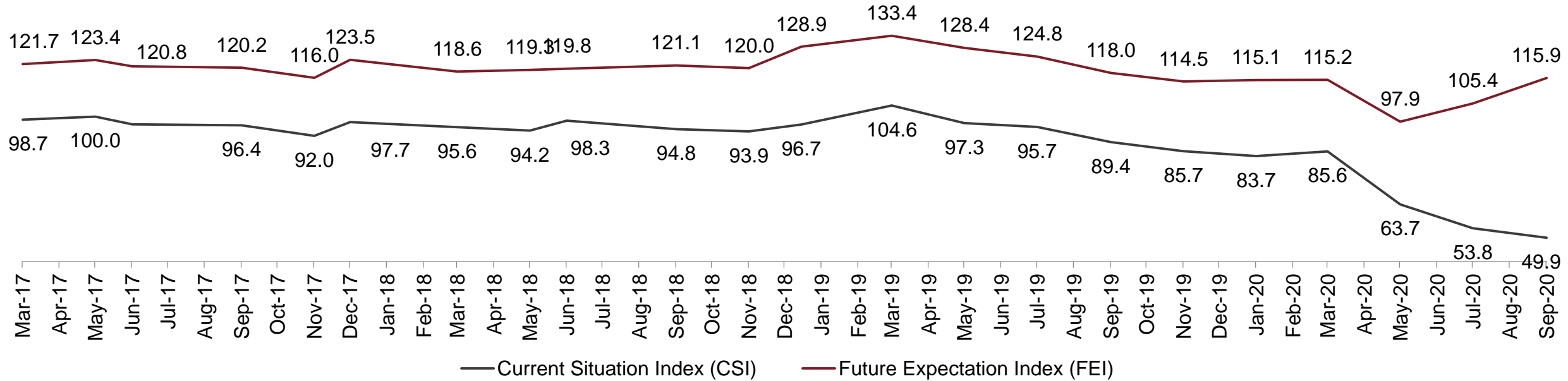


Source: MOSPI, CRISIL Research

- Overall GVA in Q1 FY2021, declined by 22.8% yoy. This was despite significant support from low input costs especially from oil and metals.
- Agriculture was the only sector which registered positive growth (3.4%) reflecting the impact of the healthy rabi crop that entered the market and rapid progress in kharif sowing. Early arrival and good spatial and temporal distribution of southwest monsoon have ensured that even the kharif crop this year will be healthy. This seeds hope that agriculture can help the pandemic stricken economy from sinking too low this fiscal.
- Industry GVA registered a de-growth of 38,1%, construction sector was hit the most (declined by 50% yoy) due to lockdown.

Consumer confidence index on current situation slips down further

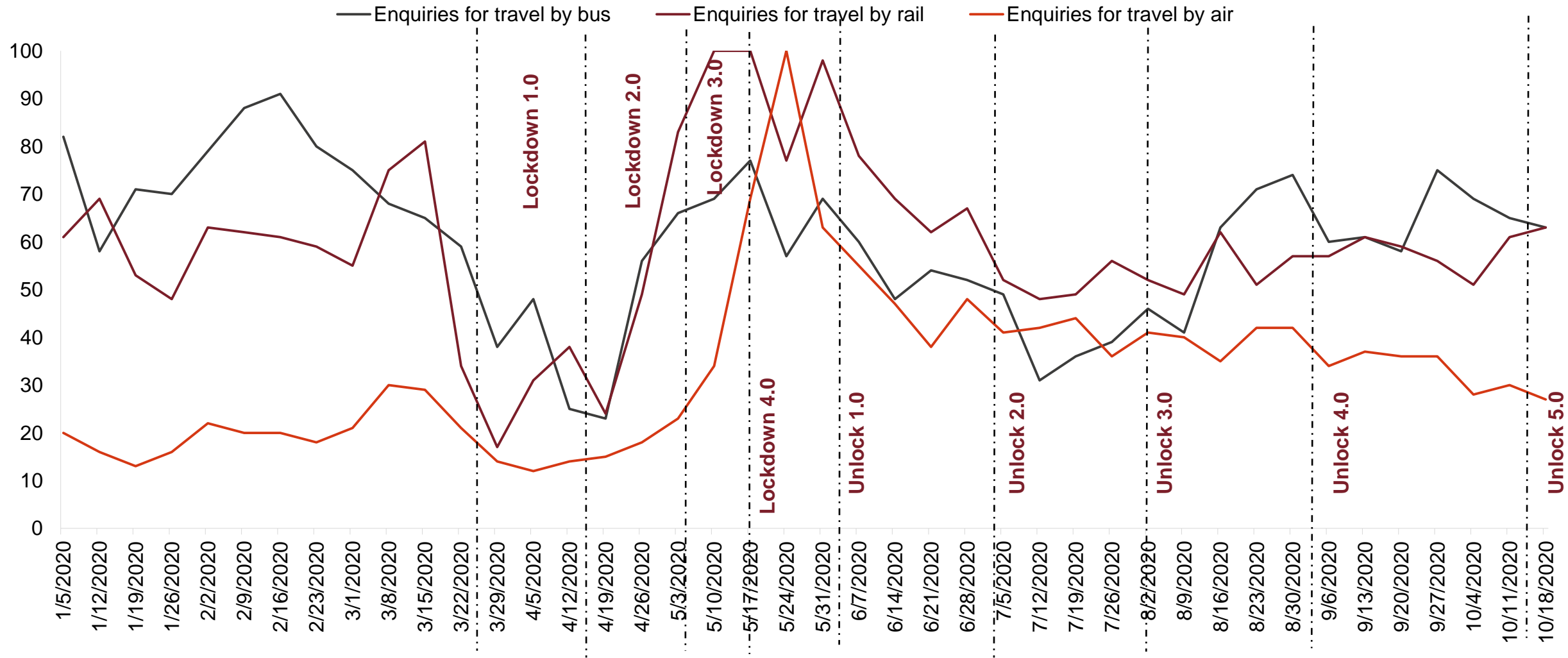
Consumer Confidence Index



Source- RBI, CRISIL Research

- Consumer confidence index on current situation collapsed for third time in row in Sept 2020. Respondents perceived further worsening in general economic situation and employment scenario during the last one year.
- Households were, however, more confident for the year ahead: the future expectations index (FEI) improved for the second successive survey round.
- Consumers expect improvements in general economic situation, employment conditions and income scenario during the coming year; discretionary spending, however, is expected to remain low in the near future

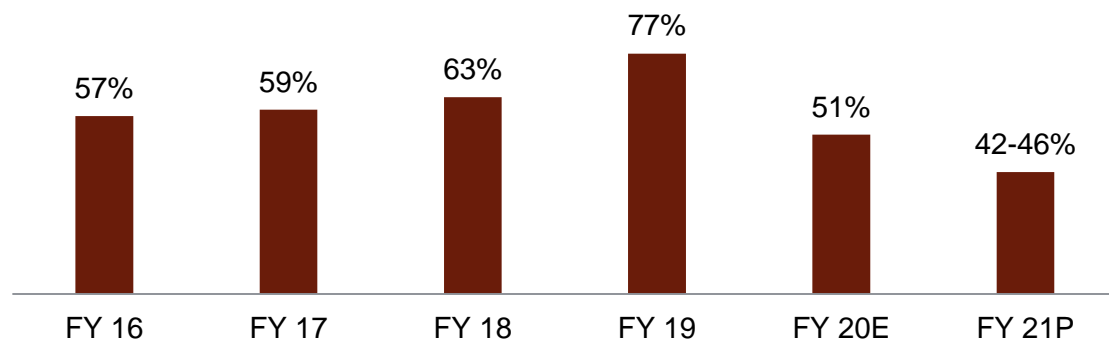
Enquiries for air travel has tapered down; however, bus and train enquiries on an uptrend



Source: CRISIL Research, Google analytics

Capacity utilisation on a downward trend

Decline in capacity utilization level



Note : Capacity utilization is that of Tata Motors, Ashok Leyland, Eicher Motors and Mahindra & Mahindra representing ~ 90% of domestic sales

Source: CRISIL Research

Capacity additions

Player	Location	Capacity '000 units	Investment	Status
Ashok Leyland Ltd.	Medak, Telangana	20	Rs 5 billion	Planning
Ashok Leyland Ltd.	Krishna, AP	4.8	Rs 1.7 billion	Under implementation
VECV Ltd.	Bhopal, MP	40	Rs 4 billion	Planning
Volvo Buses India Pvt. Ltd.	Bengaluru, Karnataka	1.5	Rs 3 billion	Planning
Sino Truck	Medak, Telangana	1.45	Rs 1 billion	Planning

Source: Industry, CRISIL Research

Player-wise capacity utilisation

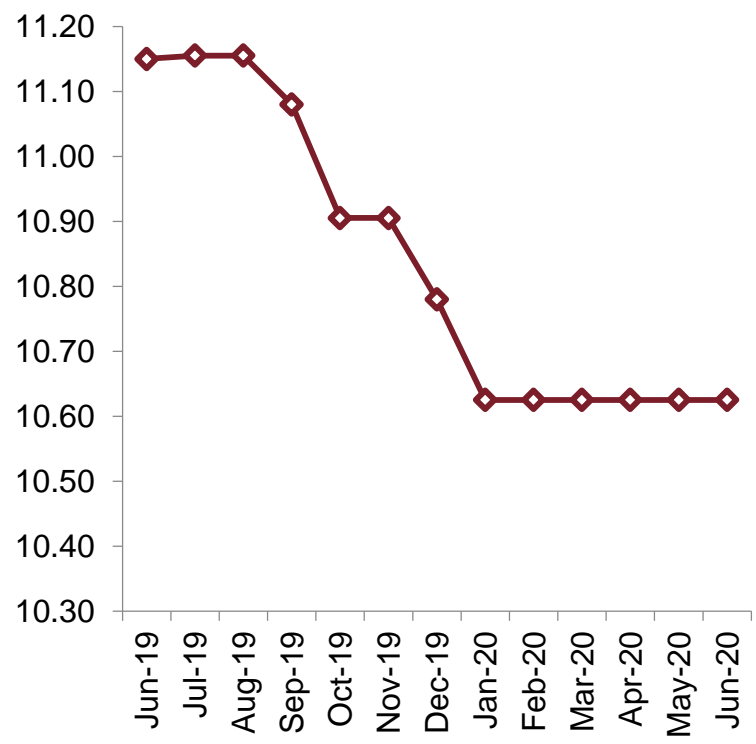
Player	Effective Capacity estimate (as on 31st Mar 2020)	Utilisation (FY2020)
Ashok Leyland	2,22,300	52%
Eicher Motors	97,500	45%
Tata Motors	7,62,000	43%
Mahindra & Mahindra	2,92,000	72%

Source: Crisil Research

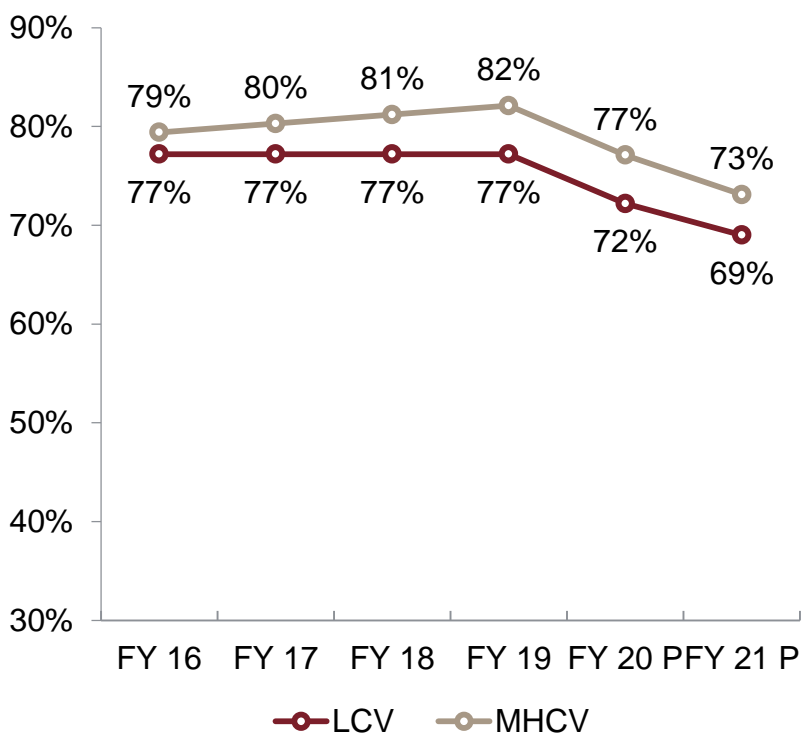
- The capacity utilisation of the top four players - Tata Motors (standalone), Ashok Leyland, Volvo Eicher Commercial Vehicles (VECV), and Mahindra & Mahindra - which was at ~77% in fiscal 2019, is expected to have fallen to ~51% in fiscal 2020 and drop further to ~42-46% in fiscal 2021.
- OEMs had earlier anticipated demand to be muted in FY21 (owing to increase in vehicle prices) because of which they had refrained from any major capacity expansion in FY20 and FY21.

Cautious lending by banks; more focus on collections

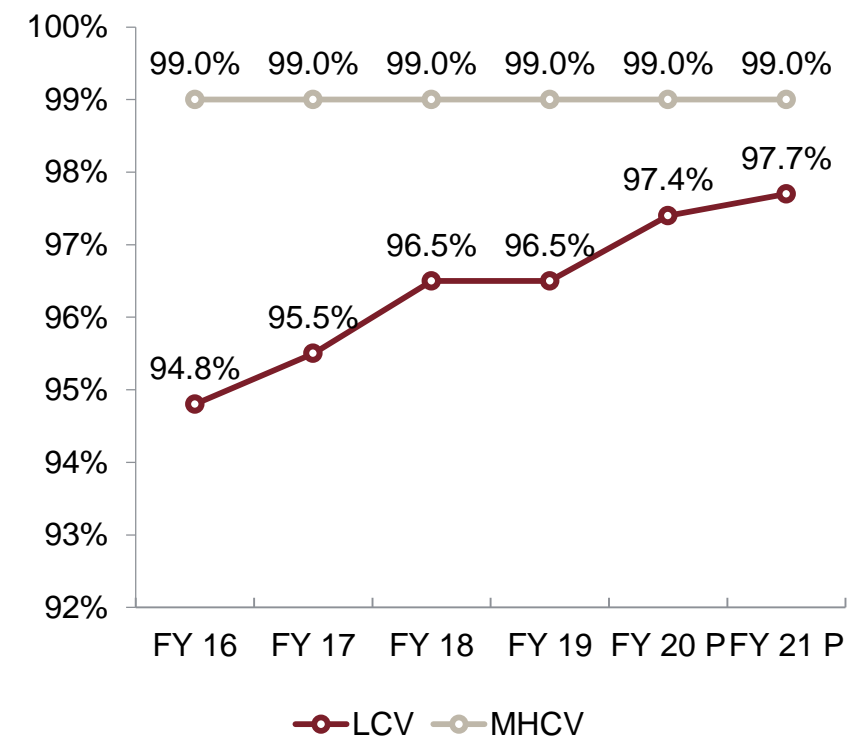
CV finance rates (%)



Loan-to-value for CV



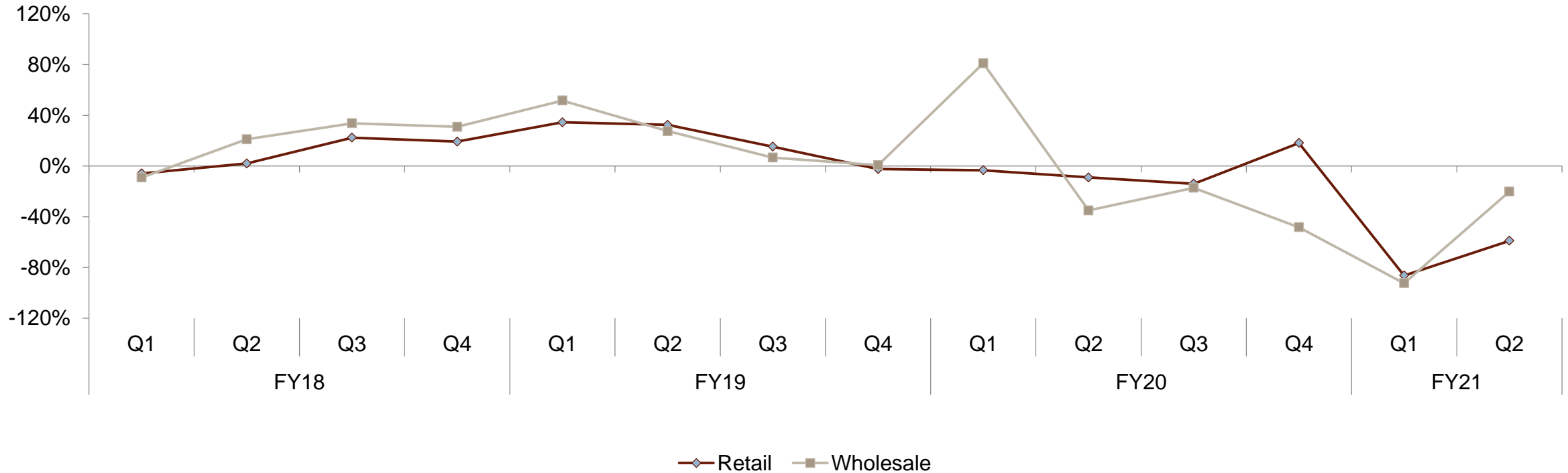
CV finance penetration



NOTE - Interest rates are an indicative rates charged by Banks
 Source: Company Reports, Industry, Crisil Research

Retail & offtake showing recovery on sequential basis

Retail vs off-take (Growth yoy)



Source: SIAM, Vahan, CRISIL Research

- Supply issues have eased out gradually post start of lockdown except for the OEMs located in west region.
- Retails have shown signs of uptick mainly from SCV aided by robust rural economy and last mile connectivity in the times of Covid. ILCV has recorded a better growth due to e-commerce movement.
- While MHCV retails have shown some improvement towards the end of Q2, retails in buses remain low.

Domestic – Annual Forecast

		CV	SCV	ULCV	MHCV	Buses
Optimistic scenario	FY 20 volumes	718	411	36	185	86
	YoY Growth in FY20	29%	20%	26%	47%	7%
	FY 21E volumes	520-534	369-374	27-32	110-114	14-15
	YoY Growth in FY21E	25-27%	9-11%	18-20%	39-41%	82-84%
	FY 22P volumes	815-830	518-523	49-54	195-200	50-52
	YoY Growth in FY22P	55-57%	39-41%	75-77%	75-77%	257-259%
	FY 21E volumes	493-508	353-358	23-28	103-106	14-15
	YoY Growth in FY21E	29-31%	13-15%	28-30%	42-44%	82-84%
Pessimistic scenario	FY 22P volumes	675-685	442-447	35-40	150-155	45-48
	YoY Growth in FY22P	35-37%	24-26%	44-46%	44-46%	217-219

NOTE: Volumes in thousands units;

YoY Growth in red indicates a negative growth

YoY Growth in green indicates a positive growth

Domestic – Quarterly Forecast in optimistic scenario

Period		CV		SCV		ULCV		MHCV		Buses	
		Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
FY20	Q3	195	(15)%	122	(5)%	10.3	(13)%	42.6	(47)%	20.1	31%
	Q4	147	(48)%	81.2	(43)%	7.1	(49)%	37.8	(62)%	20.9	(27)%
FY21 E	Q1	32	(85)%	25.2	(77)%	1.1	(88)%	4.2	(93)%	1.1	(96)%
	Q2	133.5	(20)%	98.4	(1)%	6.8	(23)%	23.9	(41)%	4.4	(76)%
	Q3	172.4-176.3	(12)-(10)%	119.5-121.5	(2)-0%	10.0-11.0	(3)-(1)%	39.0-39.8	(8)-(6)%	4.0-4.4	(80)-(78)%
	Q4	186.1-189.0	27-29%	126.8-127.8	56-58%	11.0-12.0	56-58%	43.8-44.5	16-18%	4.6-5.0	(78)-(76)%
FY22 P	Q1	177.9-178.6	462-464%	117.9-118.9	367-369%	11.8-12.8	972-974%	40.3-40.4	868-870%	7.4-7.5	578-580%
	Q2	202.2-204.9	52-54%	128.5-129.5	30-32%	13.0-14.0	97-99%	47.2-47.7	97-99%	13.8-13.9	215-217%

- **SCV & ULCV:** Kharif harvest driven by normal monsoon in most parts to aid demand. Festive season could bring in pent up replacement demand, government schemes to be an added bonus for the segment. **Captive purchases by farmers, grocery and essentials retailers to continue**
- **IMHCV:** Load availability to see improvement, margin money to remain steep, loan restructuring key for slightly better finance availability.by Q4FY21 Some demand from LFOs with healthy financials for replacement (expansion unlikely) - subject to financier participation. Infra spending to be relatively better
- **Buses:** School & tourism demand to be dismal. Range bound demand from staff for MFG and services. PPP demand to be make or break factor for IMCVs

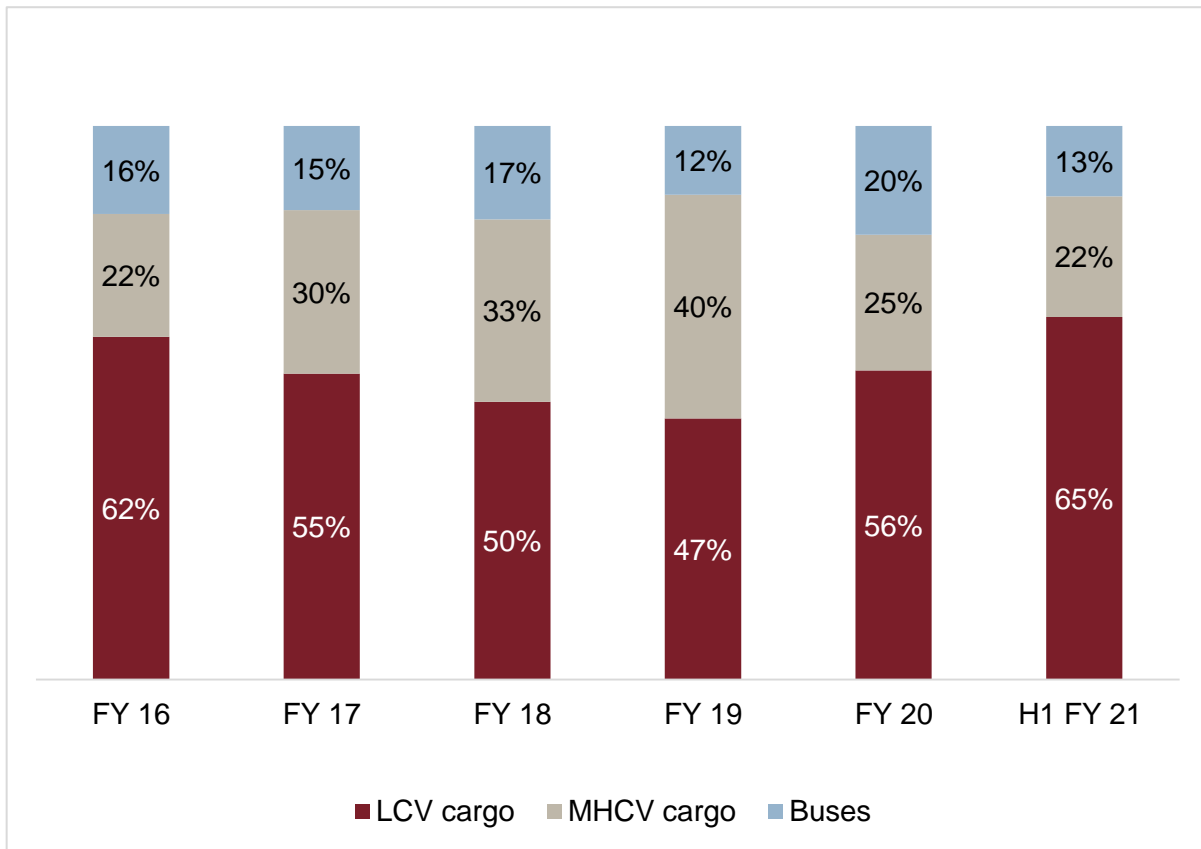
Domestic – Quarterly Forecast in pessimistic scenario

Period		CV		SCV		ULCV		MHCV		Buses	
		Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
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	Q2	133.5	(20)%	98.4	(1)%	6.8	(23)%	23.9	(41)%	4.4	(76)%
	Q3	162.5-166.4	(17)-(15)%	114.0-115.0	(7)-(5)%	8.3-9.3	(17)-(15)%	36.4-37.3	(14)-(12)%	4.0-4.4	(80)-(78)%
	Q4	169.4-172.4	15-17%	117.0-118.0	44-46%	8.7-9.7	28-30%	39.2-39.9	4-6%	4.6-5.0	(78)-(76)%
FY22 P	Q1	146.7-147.4	364-366%	99.8-100.8	296-298%	7.4-8.4	578-580%	32.1-32.2	672-674%	6.9-7.1	535-537%
	Q2	163.7-166.3	23-25%	105.5-106.5	7-9%	7.9-8.9	23-25%	37.7-38.1	57-59%	12.6-12.7	189-191%

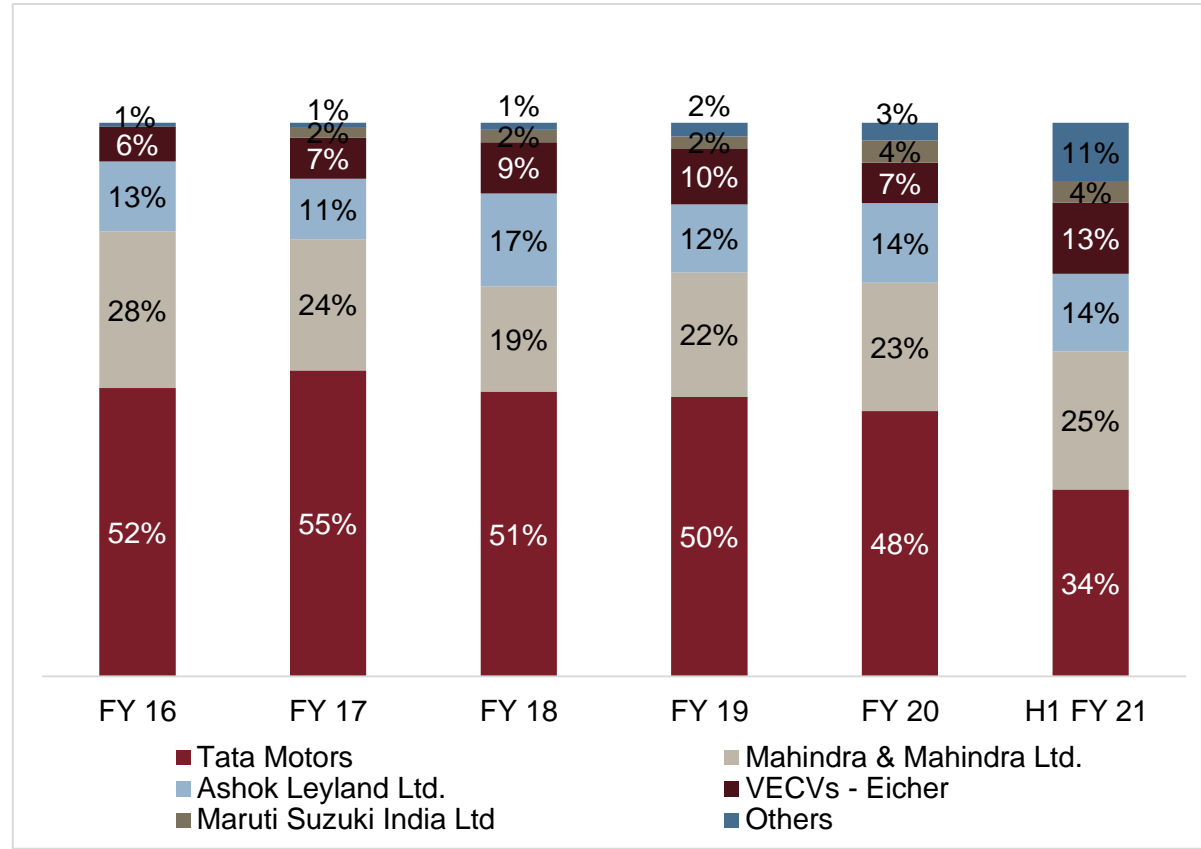
- **SCV & ULCV:** Stabilizing and plateauing of Agri, perishable demand by Q4 FY21, reverting the industry to earlier MLO dominated scenario, finance availability to still be better than MHCV
- **IMHCV:** Stagnation of load availability due to slow revival of economic activities, Limited financier participation due to spike in stress levels in MHCV portfolio, Tapered government spending in H2FY21 due to fiscal limitations.
- **Buses:** School & tourism demand to be dismal. Range bound demand from staff for MFG and services. PPP demand to be make or break factor for IMCVs

LCV cargo occupies the largest share

Share of buses continues to fall

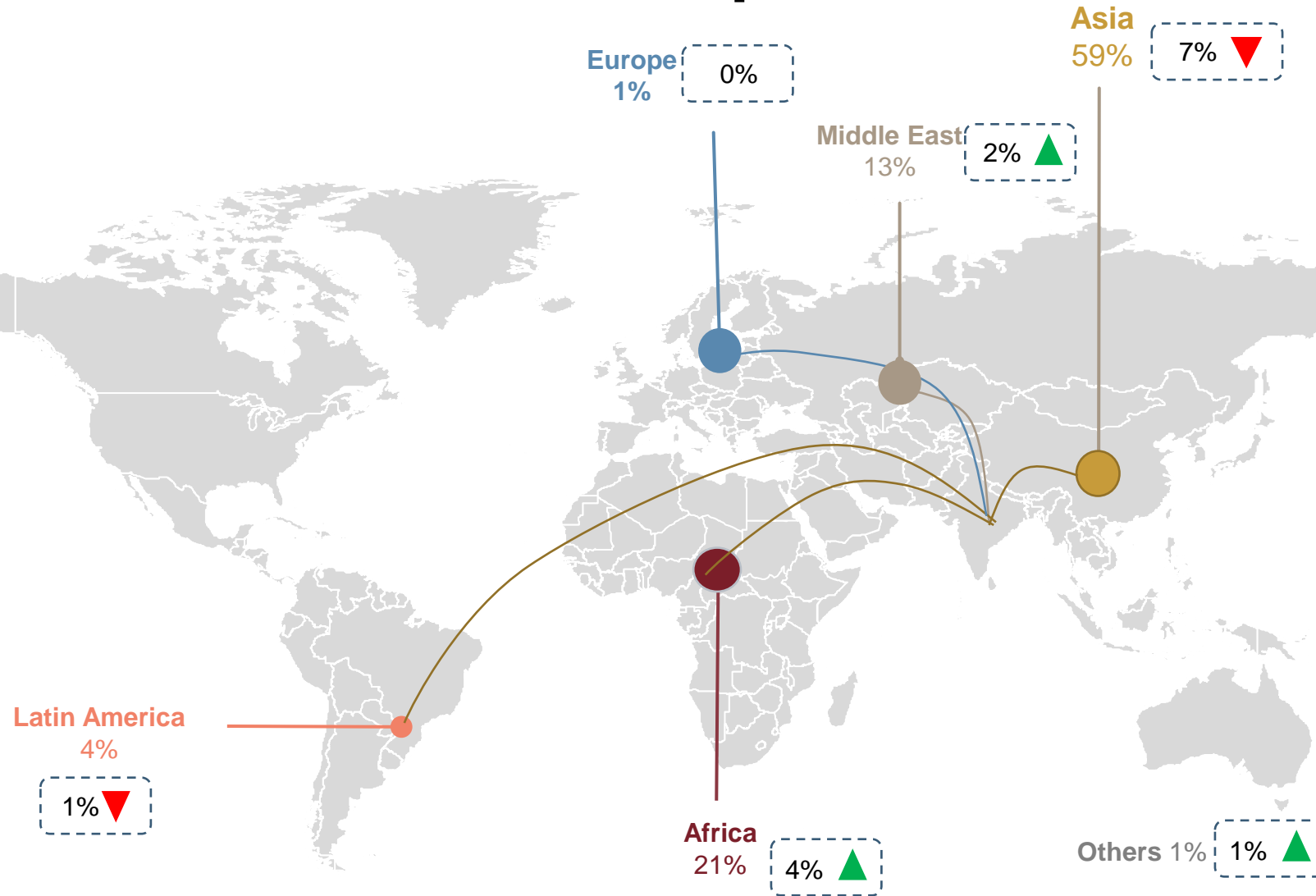


Change in competitive landscape in H1 FY21



- Exports growth across segments continues to decline. Overall CV exports declined by 56%, LCV cargo by 48%, MHCV cargo by 60% and buses by 71%.
- Passenger segment expected to see a major decline in FY21 owing to social distancing on account of CoViD.
- LCV/ICV segment expected to be better compared to other segments due to e-commerce and essential movement. However, most fleet operators are optimizing their fleet utilisation or buying a second hand or renting a truck if required, avoiding a fresh purchase due to profitability being hit.

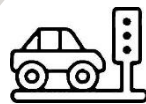
Commercial vehicles exports



- **No major construction projects** announced in importing nations like Bangladesh or Nepal has led to low requirement of MHCV cargo.
- **Uncertainty about opening up of schools and colleges** has led to lower demand of school buses. Demand will be from school segment if going forward Government mandates max 50% utilisation of school buses.
- Some demand of buses due to social distancing requirement on **staff segment** mainly from Middle East nations.
- Sri Lanka continues with its ban on non-essential imports.

Stakeholder interactions

OEM



- Traction seen in SCV mainly due to agri and pharma. Demand seen from **e-commerce** players as well.
- Pickup continues to perform well due to positive rural sentiments.
- Tipper demand to see traction in coming quarters as **NHAI projects are awarded**.
- Demand for trailers is still subdued as there's a dearth of second hand BSIV vehicles available in the market at attractive prices.
- **Supply issue has eased out** for most of the OEMs, except west region which are seeing higher Covid spread.

Dealer



- The **capacity utilization** in September 2020 has been close to 50%, compared to 60-70% in the pre COVID era, indicating that a full recovery to prior levels is yet to happen.
- LFOs are better placed to avail freight availability, however many of them have disengaged the services of attached trucks which are no longer needed, which has left the SFOs and single truck owners in a tight spot.
- Freight rates which had shot up during Apr to June, has reduced now due to availability of drivers and freight demand getting plateaued

Financier



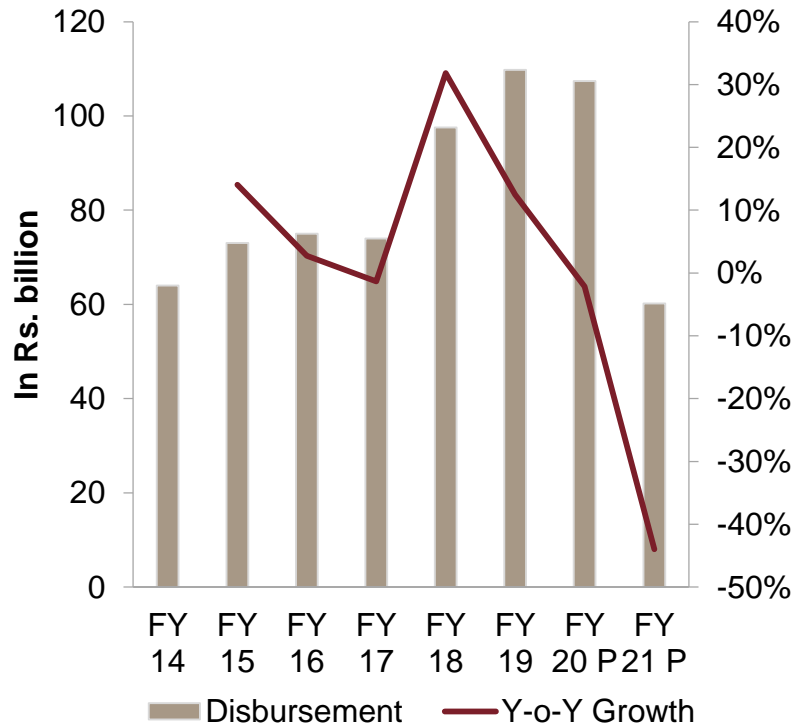
- Collection efficiency for CV transporters subdued at 60% in July-Aug but improving gradually now to 80% in Sept 2020. However continuation of this m-o-m improvement beyond Sept remains a monitorable
- Most financiers focusing on collection rather than disbursement in Sept, to formulate a restructuring strategy, hence LTVs have been lower by 200-500 bps than past year levels in MHCVs owing to cautious lending in the interim. On the other hand, few captive financiers lending >90% LTVs in the SCV segment to offset the price increase due to BS VI and convert demand/enquiries to sales/disbursements
- Higher interest rates for the customers who have availed both – Morat 1 & Morat 2. Tenor increased, for SCV, financiers have commenced 5year tenor product, for 6-7 years for ICV and above segments.

Source – Industry, CRISIL Research

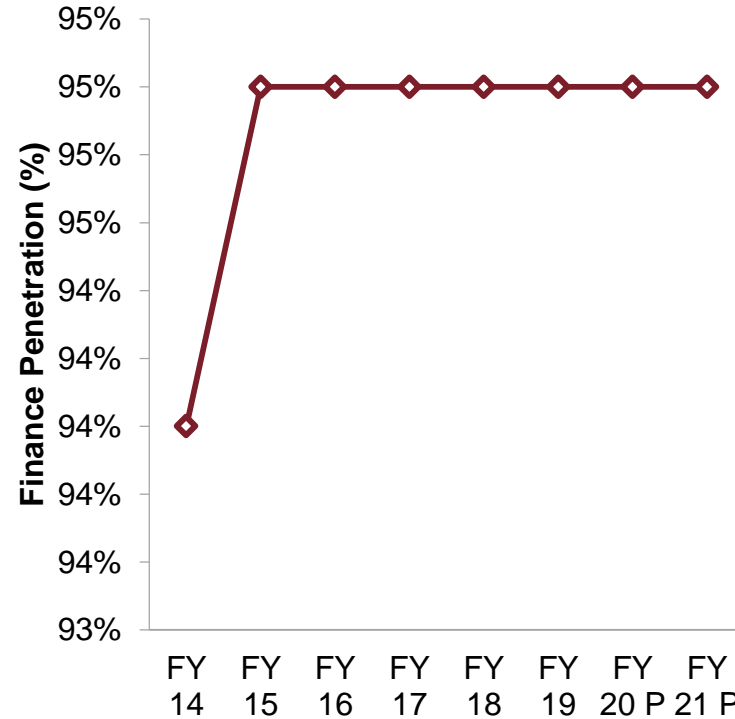
Three-wheelers

In FY21, three-wheeler financing segment to be the most impacted given the modest credit profile of its customers

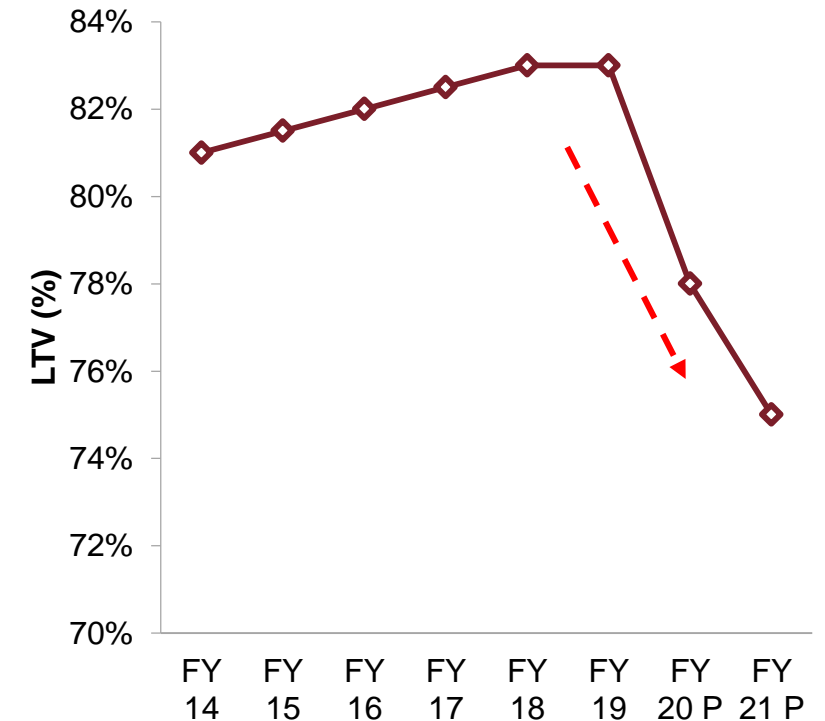
Disbursement



Finance penetration



Decline in loan-to-value

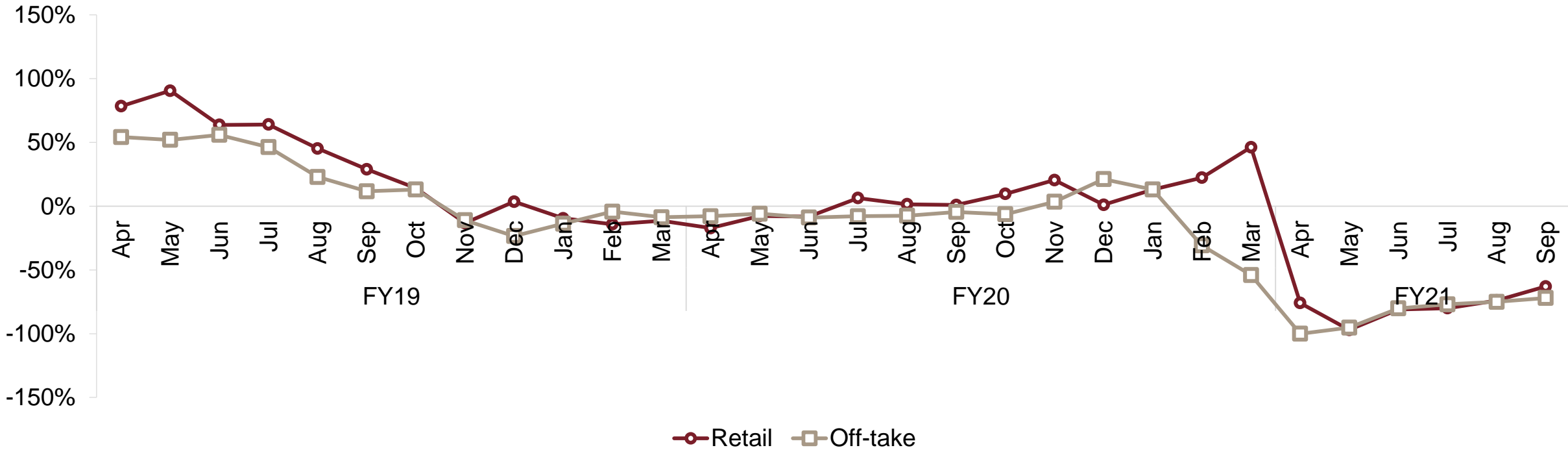


- Three-wheeler segment expected to witness sharp decline in disbursement in fiscal 2021. Financiers have got cautious in lending to this segment because of bleak visibility of income till Covid vaccine is out.
- Till Sept, most of the financiers were not lending fresh loans to three-wheeler passenger segment. Financing is available on cargo side due to business activities gradually resuming.

Source: Experian Credit Bureau, Company Reports, CRISIL Research

Retail and off-take sales nosedived in Q1 FY21 and have remained in negative territory amid the pandemic

Retail vs off-take (growth yoy)



Source: SIAM, Vahan, CRISIL Research

- Retails as well as wholesale at a historic low. Passenger segment which constitutes 80% of three-wheeler sale has been on declining trend since Covid.
- Cargo segment is aiding the industry, however, its volumes are very low for the overall industry to see a lower decline.
- Atleast in this fiscal, we do not expect a positive growth on either retail or wholesale.

Domestic – annual forecast

		Three wheelers	Cargo	Passenger
Optimistic scenario	FY 20 volumes	637	112	525
	YoY Growth in FY20	9%	13%	8%
	FY 21E volumes	218-230	83-88	136-140
	YoY Growth in FY21E	64-66%	22-24%	73-75%
	FY 22P volumes	342-347	95-100	243-248
	YoY Growth in FY22P	53-55%	14-16%	77-79%
Pessimistic scenario	FY 21E volumes	204-216	79-81	122-133
	YoY Growth in FY21E	66-68%	27-29%	75-77%
	FY 22P volumes	289-294	86-90	200-204
	YoY Growth in FY22P	40-42%	10-12%	58-60%

Domestic – quarterly forecast in optimistic scenario

Period		Three-wheeler		Cargo		Passenger	
		Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
FY20E	Q3	176.1	6%	29.7	(1)%	146.4	7%
	Q4	129.8	(28)%	24.6	(32)%	105.3	(27)%
FY21E	Q1	12.8	(91)%	5.8	(90)%	6.9	(94)%
	Q2	45.9	(75)%	19.8	(27)%	26.2	(83)%
	Q3	77.4-79.0	(57)-(55)%	29.6-30.2	0-2%	47.8-48.8	(68)-(66)%
	Q4	86.1-87.9	(34)-(32)%	29.9-30.5	22-24%	56.6-57.0	(47)-(45)%
FY22P	Q1	76.4-78.0	502-504%	22.1-22.5	281-283%	53.9-54.9	688-690%
	Q2	93.7-95.5	104-106%	24.4-24.8	23-25%	69.3-69.7	165-167%

- Easing up of restrictions mainly in metro cities; opening up of schools, colleges, workplace and transit stations will lead to pickup in utilisation level of passenger 3w.
- However, majority of the people are still not preferring shared or public mobility to commute. We expect the industry to register a double digit de-growth and end the fiscal at 73-75% de-growth.
- We expect the cargo segment to perform relatively better. It is in high demand from migrant labourers who are currently jobless and who are looking for work. Business activities has also gradually ramped up leading to load availability in the market. Moreover, availability of finance for cargo 3w has to led to a push in sales. We expect the cargo 3w to register a de-growth of 21-23% in fiscal 2021.
- Fiscal 2022, we expect the year to grow by 54-56% on the back of high double digit growth in fiscal 2021 and economy back to normal.
- We have assumed no fresh permits to be released which will have a substantial impact on the industry at least by Q1 of FY22.

Source – SIAM, CRISIL Research

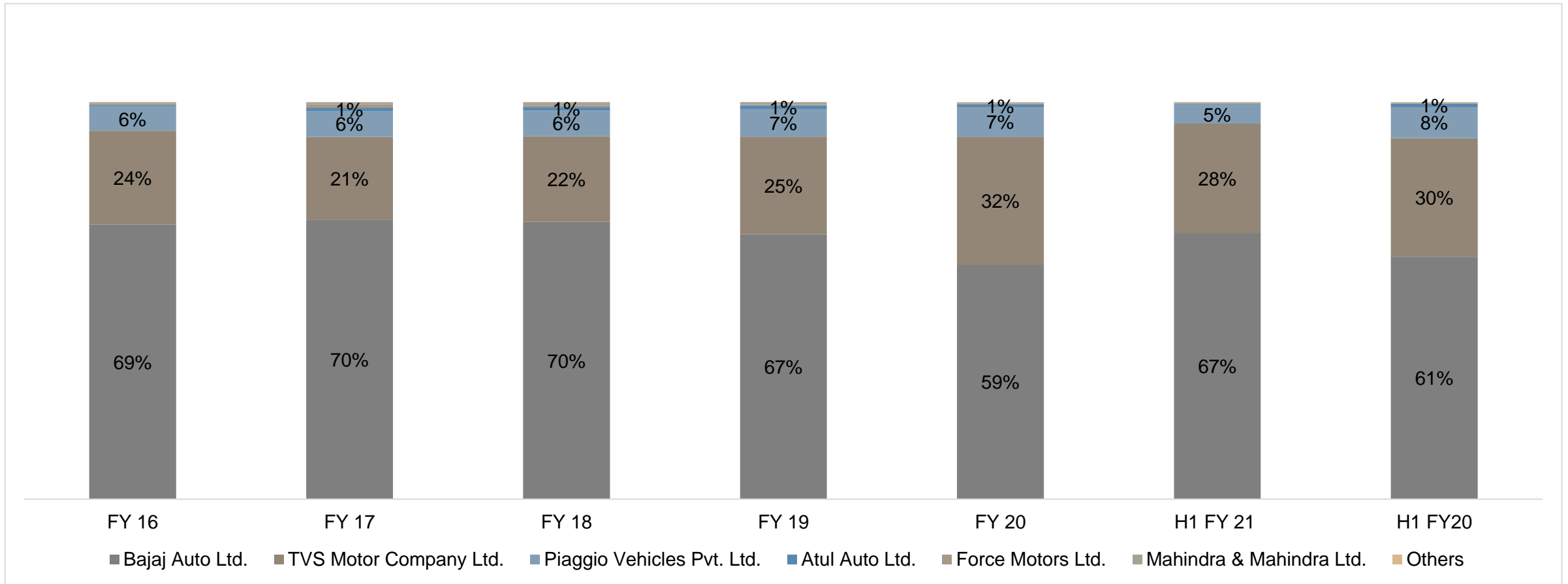
Domestic – quarterly forecast in pessimistic scenario

Period		Three-wheeler		Cargo		Passenger	
		Volume ('000)	YoY Growth	Volume ('000)	YoY Growth	Volume ('000)	YoY Growth
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	Q2	45.9	(75)%	19.8	(27)%	26.2	(83)%
	Q3	69.5-69.9	(61)-(59)%	27.7-28.1	(7)-(5)%	41.5-41.9	(73)-(71)%
	Q4	78.7-79.1	(40)-(38)%	26.1-26.5	6-8%	52.4-52.8	(51)-(49)%
FY22P	Q1	64.7-65.1	409-411%	19.8-20.2	243-245%	44.7-45.1	548-550%
	Q2	79.2-79.6	72-74%	21.9-22.3	11-13%	57.1-57.5	118-120%

- Higher spread of Covid-19 and people fearing the use of share and public mobility will further hamper the growth of passenger 3w sale. In case of people mobility remaining restricted, we expect the 3w passenger sale to de-grow by 75-77% in fiscal 2021. Going forward, financiers won't be keen in financing 3w passenger as already seen due to higher GNPA levels and low income levels of auto-rickshaw drivers.
- We expect 3w cargo to not see a huge downside, because of higher demand for last mile connectivity during the Covid-19 era and migrant labourers not returning back to the cities. In such case, we expect the industry to witness a de-growth of 26-28%.
- Here, also we have assumed no fresh permits to be released which will have a substantial impact on the industry at least by Q1 of FY22.
- If Covid-19 spread continues and economic recovery slips back, we expect the industry to grow at 40-42% in fiscal 2022 mainly on back of dwindled industry volumes of fiscal 2021.

Source – SIAM, CRISIL Research

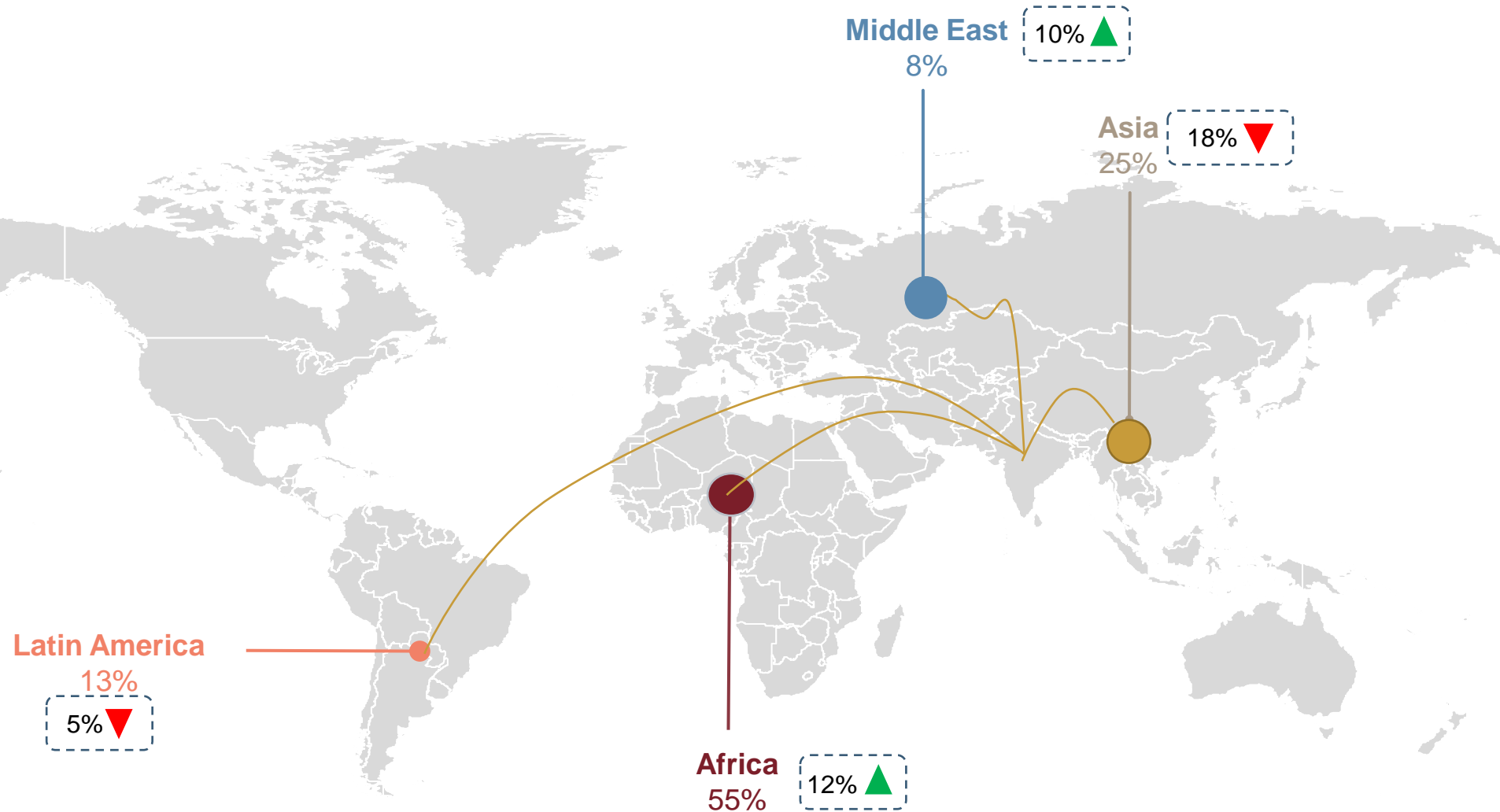
Exports declined by 40% in H1 FY21



Source: SIAM, CRISIL Research

- In H1 FY21, exports declined by 40%, cargo segment saw a dip of 49% whereas passenger segment declined by 40%.
- Bajaj gained market share due to the pre-existing orders in pipeline.
- Companies with higher exposure towards African markets performed better compared to others.

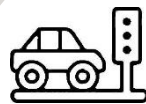
Three-wheeler exports



- Exports share of African and Middle East countries increased aided by lower covid spared and crude prices firming up.
- Ban of auto-rickshaw in Egypt has been lifted which has aided to exports growth.
- Exports to Latin American country was lower due to considerable spread of Covid and hence people not preferring a shared mode of transport.
- Exports lower to ASEAN countries as they faces several lockdowns due to higher spread of Covid.
- On the back of African nations performing well, we have revised our forecast from -48% to -25% for FY21.

Stakeholder interactions

OEM



- Cargo segment is performing better than passenger segment. It is expected to perform better for the year.
- **Migrant laborers** who lost jobs and higher usage of **ecommerce** is giving an impetus to this segment.
- Unlock phase coupled with festive season, **mobility of people** is expected to move up. Currently, passenger 3w is running at 30-40% utilisation.
- Once **utilisation level** increases and previous loans starts getting repaid, financier will start financing even on passenger 3w front.
- Passenger 3w will pickup only after **schools, colleges and transit stations** opening up. This remains a key monitorable.

Dealer



- **Income** of passenger 3w drivers have reduced substantially, Hence, passenger 3w is doing dismal. No dealer was positive for its growth even going ahead in this fiscal.
- **Footfalls and conversion ratio have fallen.**
- **Cargo 3w** is doing well because of **business operations resuming gradually.**
- Most of the dealers were positive about cargo 3w sales in festive season.
- No major discounts from OEM to enhance sales.
- Dealers have noticed ACE buyers shifting to 3w cargo category, because of huge price differential and approx. similar payload capacity looking at current market load available.

Financier



- Current focus is on **collection**, rather than disbursement of fresh loans.
- Financiers are still considering financing on cargo side, most of the financiers **didn't disburse fresh loan for passenger auto-rickshaw** side till Sept end.
- **Defaults** have risen more on passenger 3w front compared to cargo 3w.
- **Repossession** of 3w is possible, however second hand 3w is not preferred, since the buyers consider it to be **inauspicious**. Hence, it is difficult to resale at a decent price.

Source – Industry, CRISIL Research

Tractors

Tractor sales to soar this fiscal after falling in the last

Parameters	Impact		
	FY 20	FY21E	FY22P
Farm Income**	Neutral	Favourable	Neutral
-- Crop Prices	Favourable	Favourable	Neutral
-- Crop Output	Neutral	Favourable	Neutral
-- Kharif Output	Neutral	Favourable	Neutral
-- Rabi Output	Neutral	Favourable	Neutral
Demand Indicators	Favourable	Neutral	Neutral
-- Infrastructure Development	Favourable	Not favourable	Neutral
-- Sand Mining	Not favourable	Favourable	Neutral
Supply side variables & financing	Neutral	Neutral	Favourable
-- Finance Availability	Neutral	Favourable	Favourable
-- Channel Inventory	Neutral	Neutral	Favourable
-- Player Action	Favourable	Neutral	Neutral

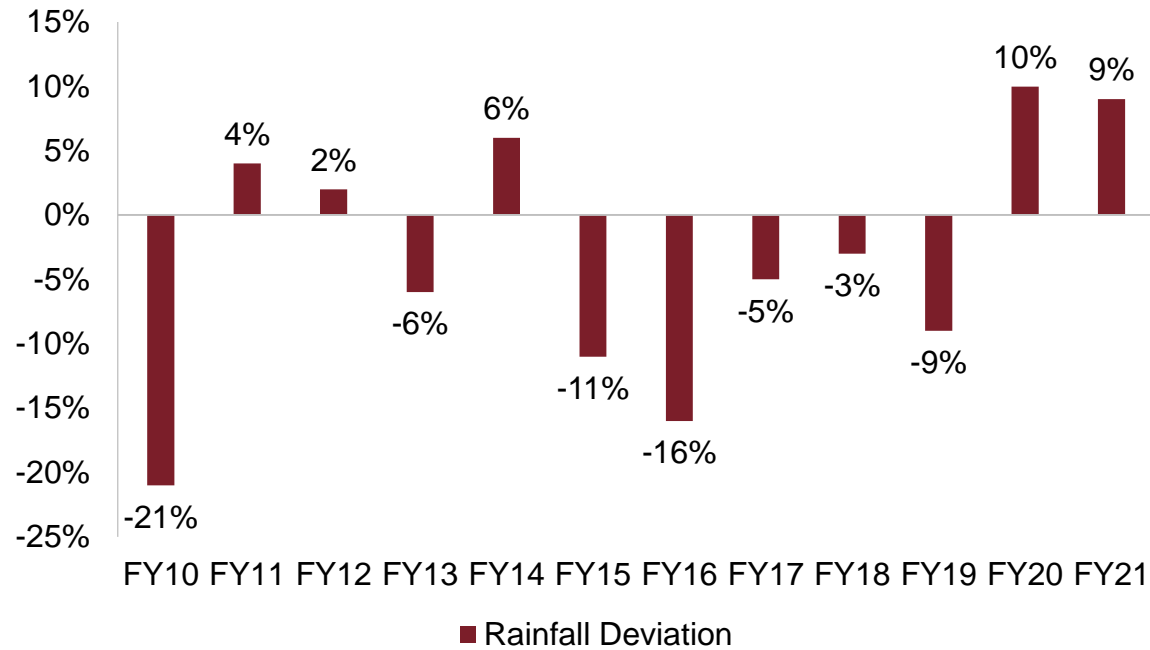


NOTE : ** Fiscal 2021 assumed neutral assuming normal monsoon, P: Projected

Source: CRISIL Research

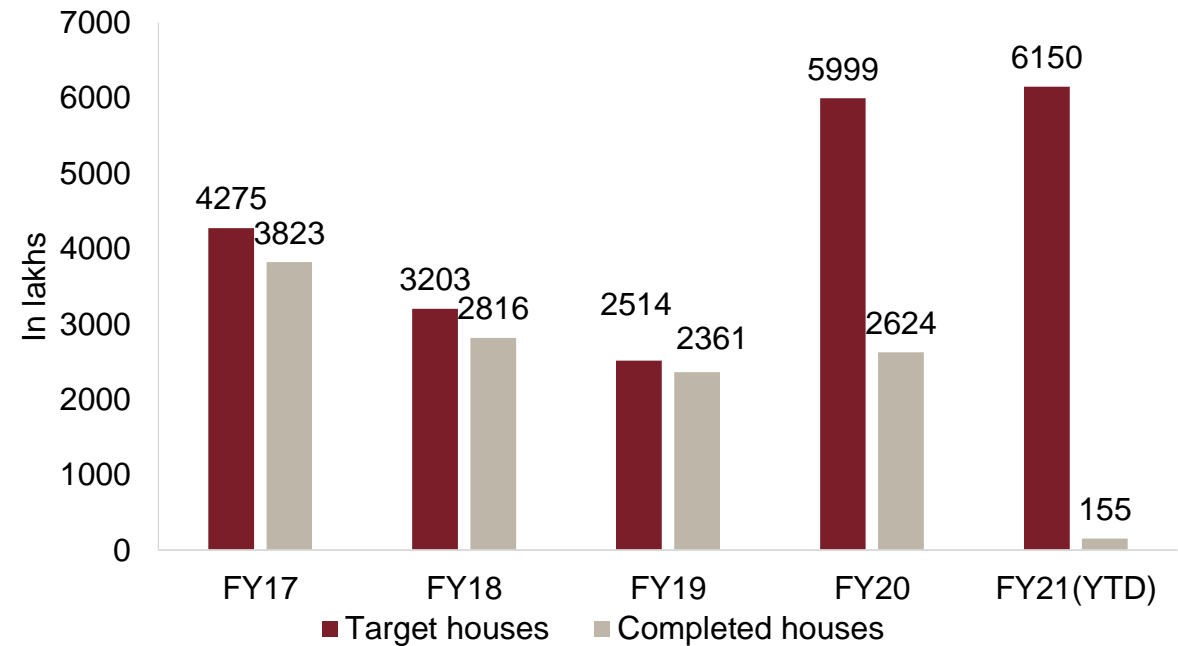
Normal rainfall augurs well for this kharif season

Normal rainfall in fiscal 2021



NOTE: Rainfall deficiency in the range of -10% to 10% of the long period average is considered as normal as per IMD. P: Projected
Source : IMD, CRISIL Research

PMAY-G

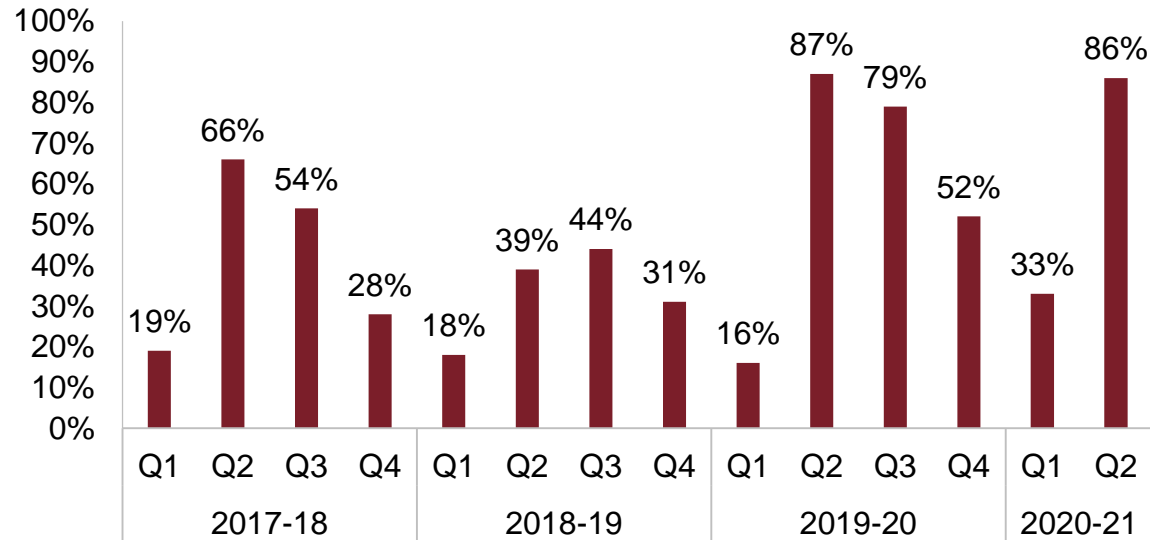


SOURCE: Ministry of Rural Development, CRISIL Research

- Normal and well distributed monsoon expected in FY21
- South West monsoon were well distributed and above average coupled with reverse migration of farm laborers appears to be heading for a bumper Kharif.
- PMAY-G still under some stress.

Higher reservoir levels to aid crop production in MY20, supporting tractor sales

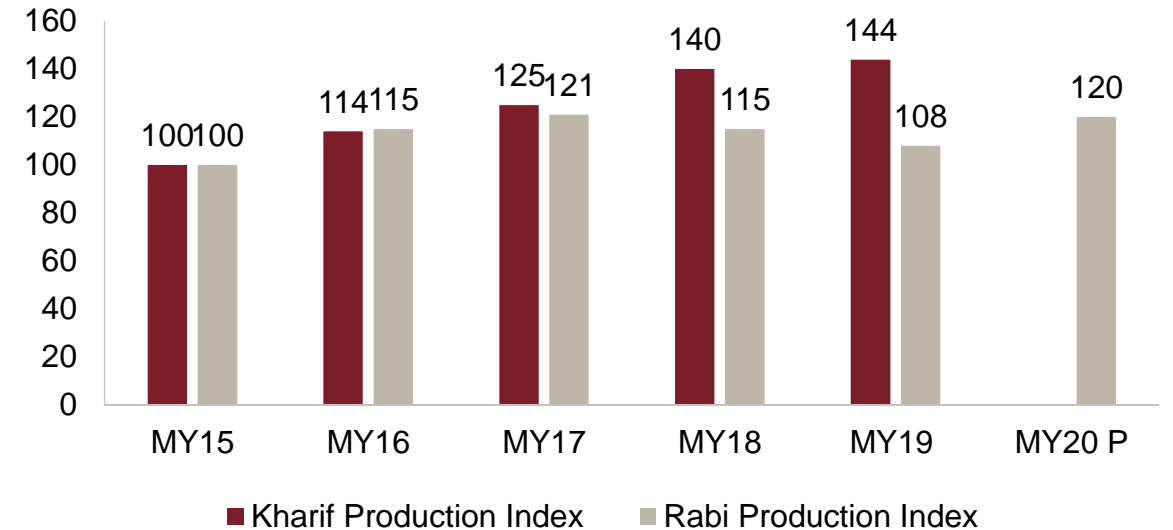
Reservoir levels at all time high



Source: CWC, CRISIL Research

Notes: Storage Status of 120 Reservoirs of the Country

Crop production growth higher for MY19



MY: Marketing year, P: Projected

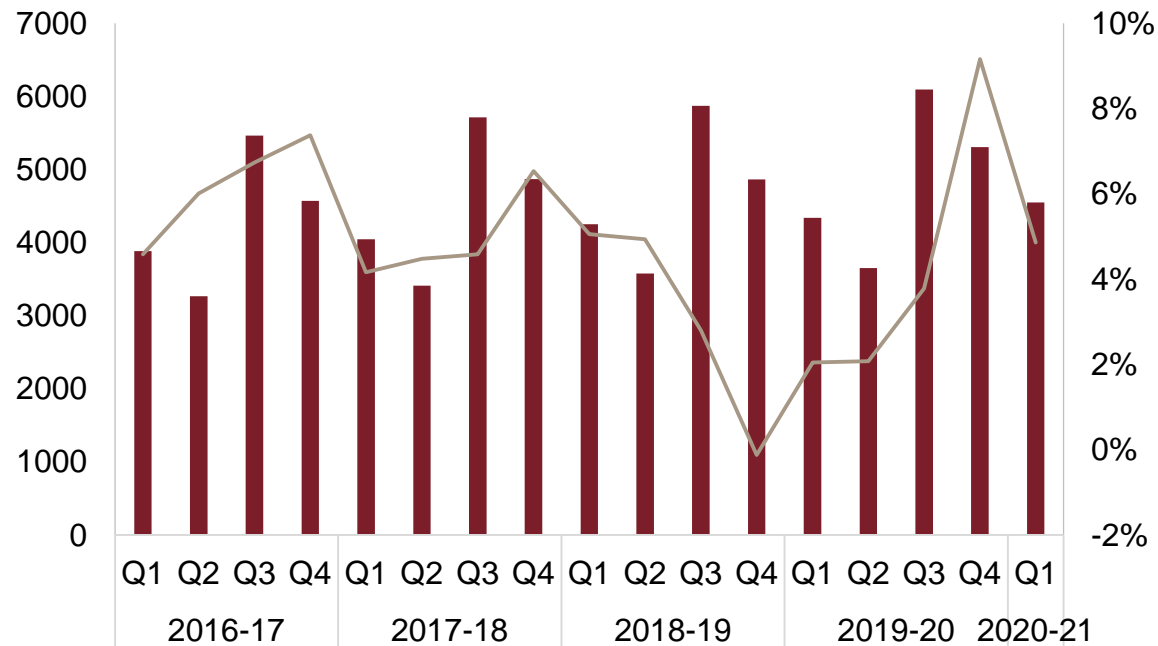
Notes: 1) Base of 100 for Index (kharif and rabi) taken in MY Jan-Dec 2015

Source: Ministry of Agriculture, CRISIL Research

- Total profit for upcoming kharif to increase by 8-10% on account of better yields.
- Sowing growth has narrowed with kharif season's progress, but still expected to be 4-5% higher on year, full season.
- High investment by farmers on agriculture activities amid absence of any other investment opportunities due to Covid-19 outbreak
- Higher procurement by the central government as well as by state government. Higher procurement even in eastern states such as Bihar and southern states such as AP and Telangana where the state government typically does not procure has led to an increase in positive farmer sentiments

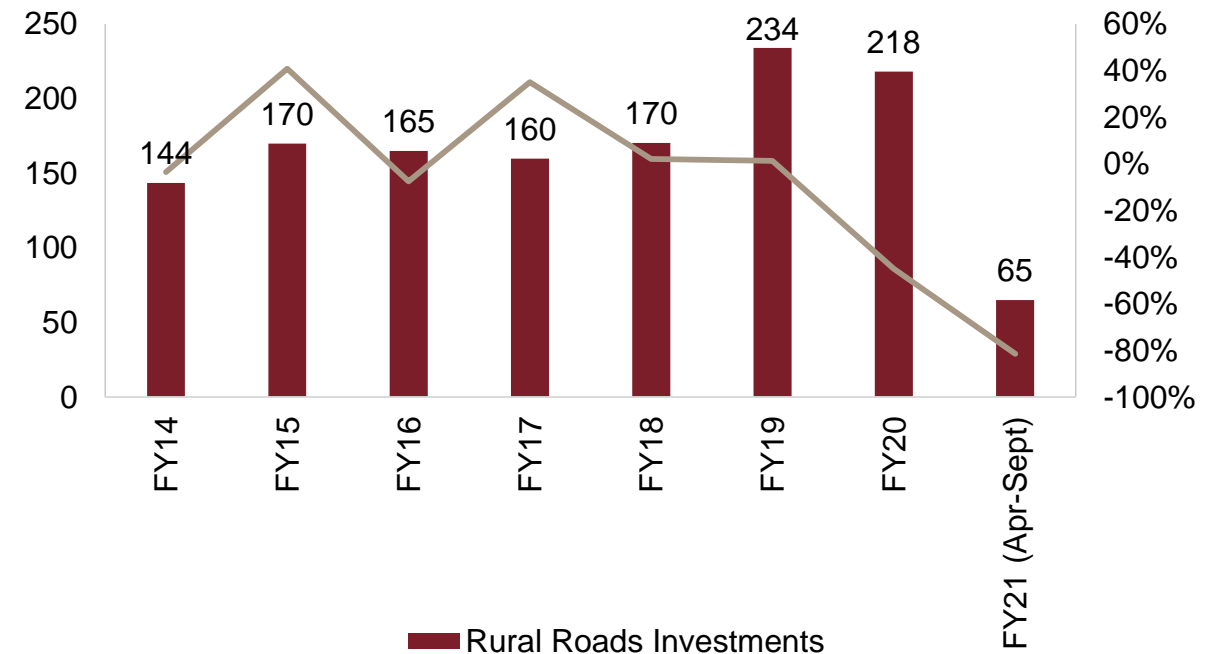
Agriculture unlikely to be ruffled much by the pandemic

Agriculture GVA and growth rate (y-o-y)



Source: Ministry of Statistics and Programme Implementation, CRISIL Research
 Notes: GVA at basic prices (constant 2011-12)

PMGSY status

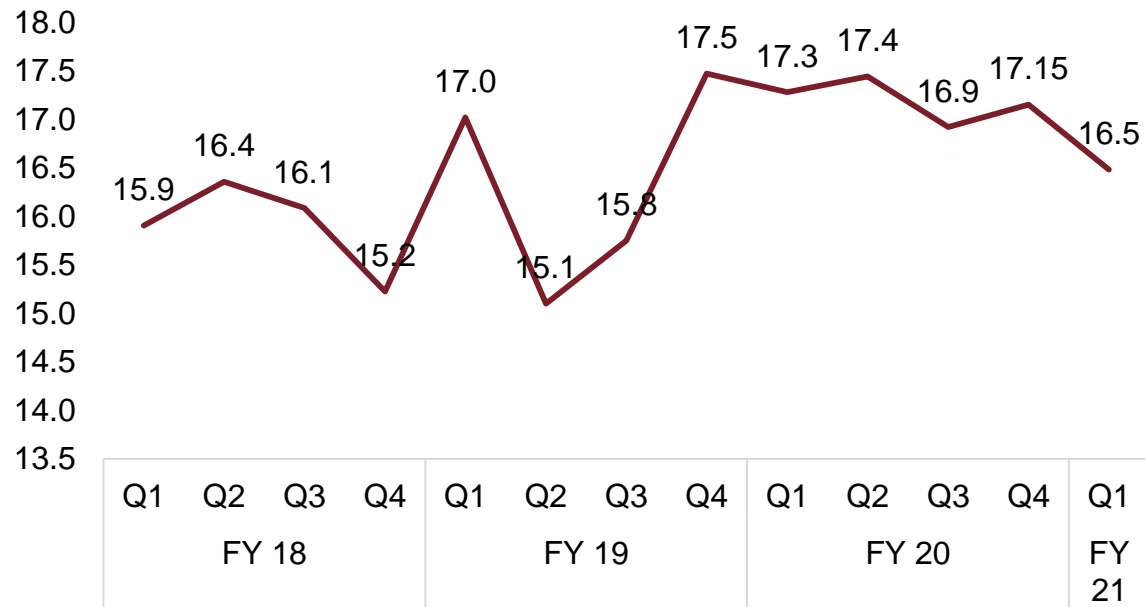


Source: OMMS (Online management, Monitoring and Accounting System), CRISIL Research

- Rural road construction declined significantly in fiscal 2020; Covid-19 brings down rural road construction further.
- Pace of rural construction is expected to plunge in FY21 as well due to construction activities being put to halt in April and May'20 on account of nationwide lockdown due to Covid-19 outbreak and as investments towards PMGSY are expected to decline as funds divert towards healthcare.

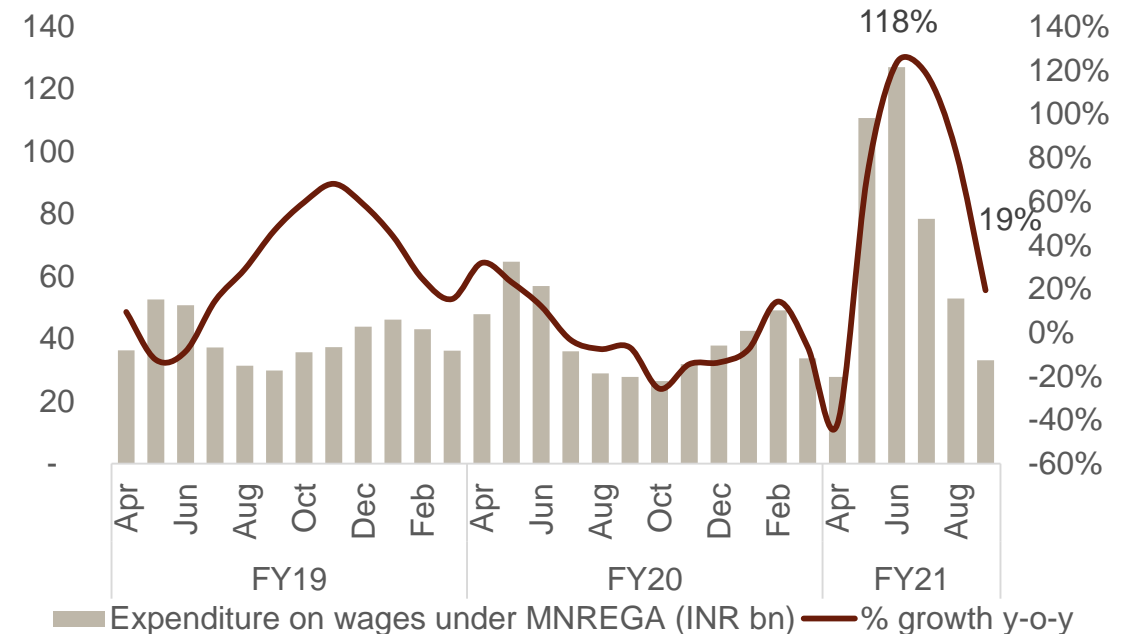
Financiers devised innovative solutions amid pandemic; moratorium unlikely to have major impact on the industry

RBI rate cuts can lower interest rates marginally



NOTE: Interest rates for Q1FY21 is not yet released by leading financiers
Source: CRISIL Research

After tremendous jump in July 2020 MNREGA expenditure growth slopes downwards

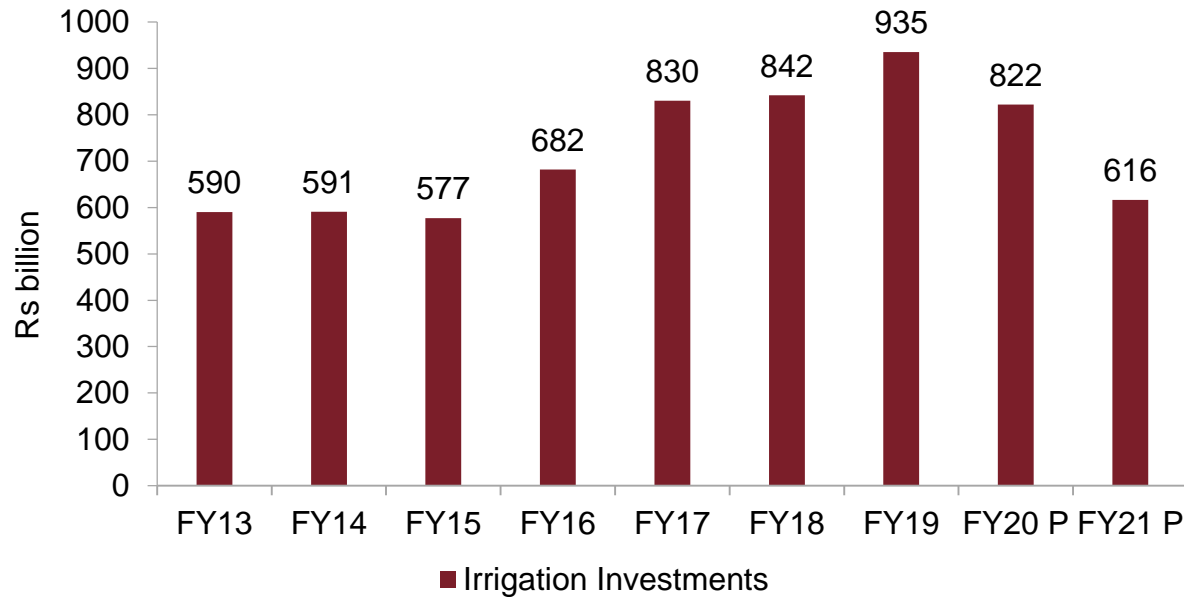


Source: Ministry of Rural Development, CRISIL Research

- Repo rate cuts from RBI since last fiscal will lead to marginal decline in the interest rates. Moreover as financiers turn risk averse, median interest rates is expected to fall in FY21.
- Tractor NPAs are estimated to be at a stable level in FY20. LTVs are expected to remain at a similar level of 70-75% amid risk averse investors.
- Tractor loans under moratorium are estimated to be at a lower level.
- MNREGA disbursement had reached its peak in May & June, now it is back to pre-Covid level.

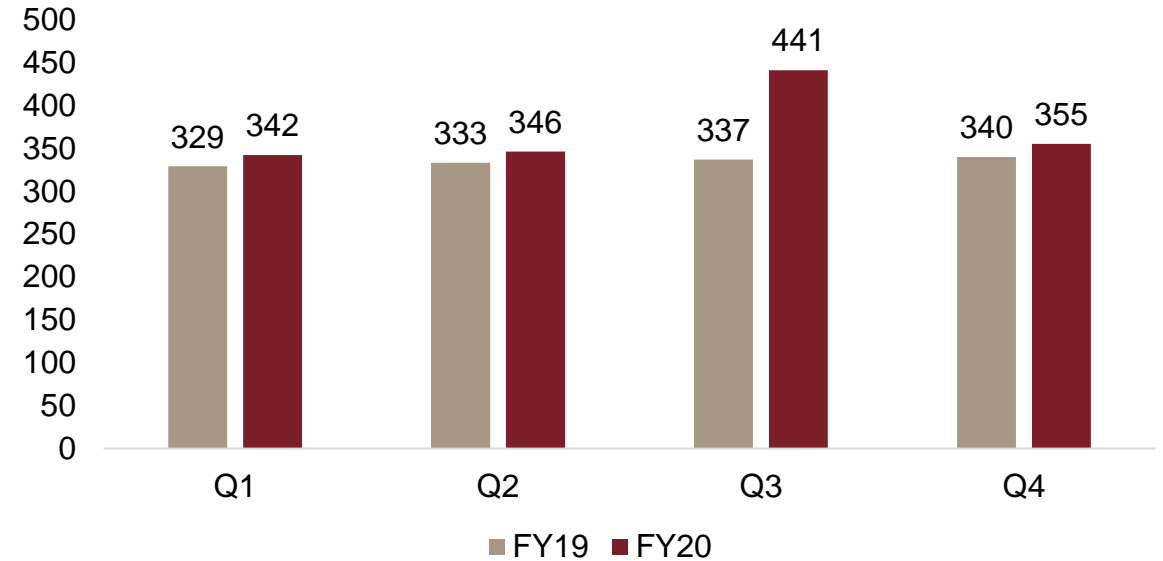
Investments in irrigation to see moderate decline this fiscal

Irrigation spending increasing at a slower pace



Source: Department of Agriculture, Cooperation & Farmers Welfare, CRISIL Research
P: Projected

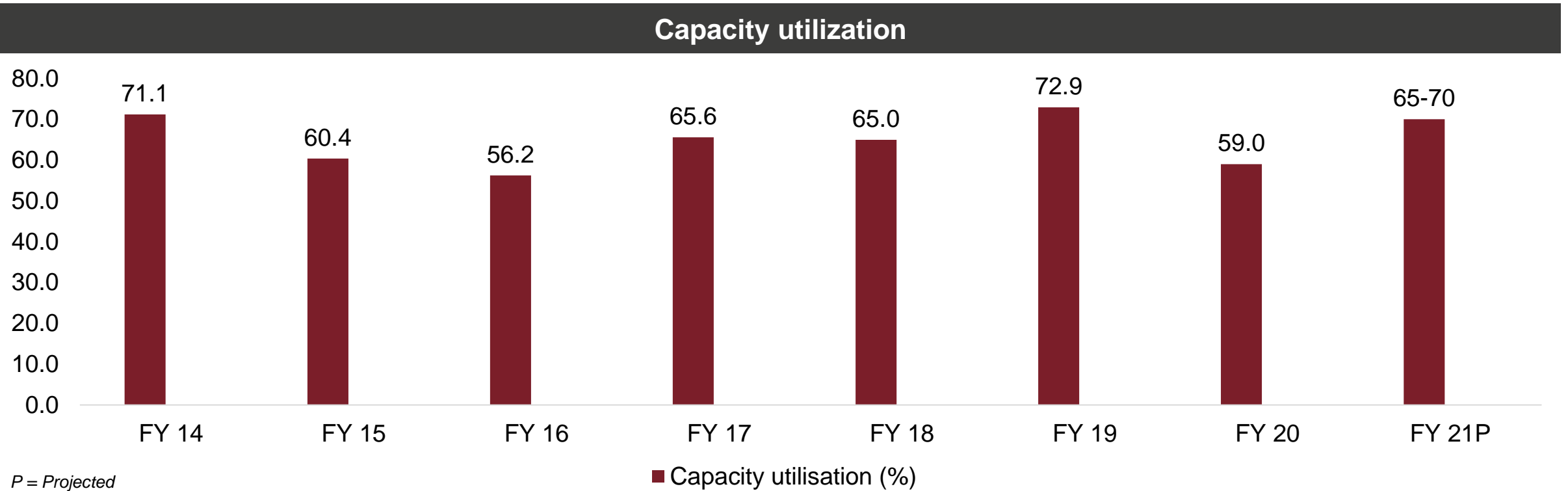
Daily rural wage



Rural wages includes general non-agricultural labour.
Source: RBI, CRISIL Research

- Irrigation investments is expected to decline to the tune of 4-6% in fiscal 2021 as states divert funds towards healthcare and other social expenditure owing to Covid-19.
- Investments are expected to recover post fiscal 2021 due to states such as Maharashtra, Karnataka and Madhya Pradesh who have higher needs for irrigation investments.
- Mechanization has increased in western and southern states, viz., Gujarat, certain areas of Tamil Nadu, and Andhra Pradesh, with an increase in the area under irrigation and growing awareness among farmers.
- Irrigation intensity is highest in northern region, followed by the southern and eastern regions

Capacity utilisation to improve as tractor demand soars




P = Projected

Source: CRISIL Research

- The imposition of lockdown had not allowed companies to increase their production level. Due to this, stock levels are low, while there is an increase in demand.
- Supply constraints led to liquidation of plant level inventory in April and May. Plant inventory is expected to be marginally lower in fiscal 2021 as supply constraints will persist and then stabilize in fiscal 2022.
- Production levels are expected to go up in Q3 and demand is expected to be high.
- The capacity utilization is expected to be at 60-65%

Implementation of TREM IV norms postponed by one year

Emission standard stage	Engine power	Market share	Date	CO	HC+Nox	PM
	HP			g/kWh		
Trem Stage III A	11 to 25HP	9%	1st April 2010	5.5	8.5	0.8
	25 to 50HP	84%	1st April 2010	5.5	7.5	0.6
	50 to 75 HP	7%	1st April 2010	5	4.7	0.4
Trem Stage IV	11 to 25HP	8%	No change			
	25 to 50HP	84%				
	50 to 75 HP	8%	1st October 2021	5	4.7	0.025



Source: Industry, CRISIL Research

- The new emission norms which are expected to be set in place will require Agricultural machinery – including agricultural tractors, power tillers and combined harvesters.
- To simplify and avoid any confusion with other vehicle norms with “BS” or “Bharat Stage” prefix, Agricultural tractors and other farm equipment vehicles will fall under the TREM Stage-IV and TREM Stage-V.
- The coming in of TREM IV regulations effective from October 2021 (due to which the price for >50 hp tractors is expected to increase by 10-12%) will aid in increasing realizations marginally.
- As tractor with more than 50HP contribute only 8% to overall tractor sales, we expect limited impact on tractor industry.

Domestic – annual & quarterly forecast in optimistic case

		Tractors			
		Period	Volume ('000)	YoY Growth	
FY 20 volumes	710	FY20	Q3	204	(6)%
YoY Growth in FY20	10%		Q4	146	(9)%
FY 21E volumes	833-850	FY21E	Q1	165	(13)%
YoY Growth in FY21E	18-20%		Q2	236	41%
FY 22P volumes	822-838		Q3	256-261	26-28%
YoY Growth in FY22P	(2)-0%		Q4	178-181	22-24%
		FY22P	Q1	188-191	14-16%
			Q2	212-216	(11)-(9)%

- Tractor industry to see a growth by 18-20% in FY21 as most of the lost retail sales in March-April due to the lockdown has come back, positive farm sentiments on account of better crop profitability, higher government support through income support schemes, higher procurement of field crops and higher rural expenditure.
- Tractor demand is expected to further improve on account of healthy reservoir level and expected pick up in commercial demand.
- Agriculture spend has been higher by 52% on-year (as of Mid-Sept'20). However, government spending in H2 will remain a key monitorable as fund run low.

NOTE: Volumes in thousand units; YoY Growth in red indicates a negative growth, green indicates positive growth
 Source – CRISIL Research

Domestic – annual & quarterly forecast in pessimistic case

FY 20 volumes	710
YoY Growth in FY20	10%
FY 21E volumes	805-825
YoY Growth in FY21E	14-16%
FY 22P volumes	758-773
YoY Growth in FY22P	5-7%

Period		Tractors	
		Volume ('000)	YoY Growth
FY20	Q3	204	(6)%
	Q4	146	(9)%
FY21E	Q1	165	(13)%
	Q2	236	41%
	Q3	238-244	18-20%
	Q4	170-174	17-19%
FY22P	Q1	178-183	9-11%
	Q2	198-202	(14)-(16)%

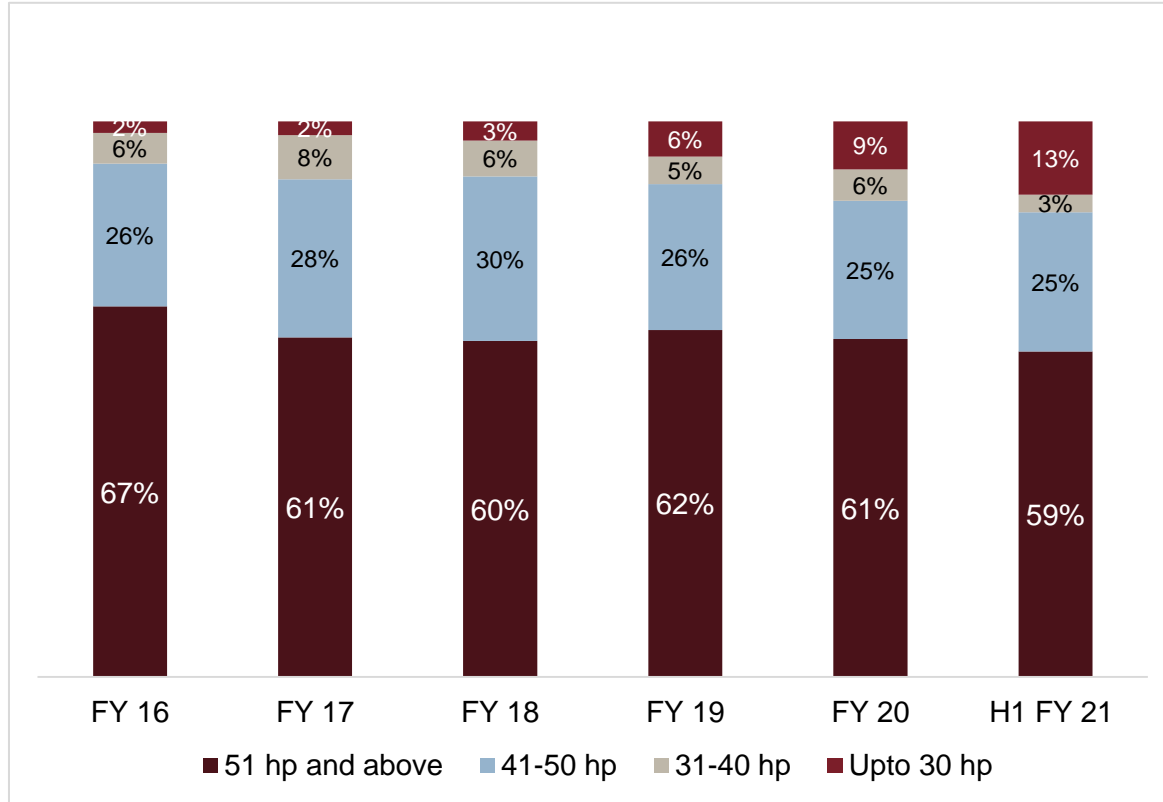
- Higher production, is expected to lead to higher supply and hence, crop prices are expected to be lower. In such situation, we expect the tractor industry to register a lower growth in Q3 and Q4 of fiscal 2021, closing fiscal 2021 at 14-16% growth.
- Since migrant labourers are more in number, move towards mechanization is expected to reduce in fiscal 2022. This will lead the industry to clock a negative growth of 5-7%.

NOTE: Volumes in thousand units; YoY Growth in red indicates a negative growth, green indicates positive growth

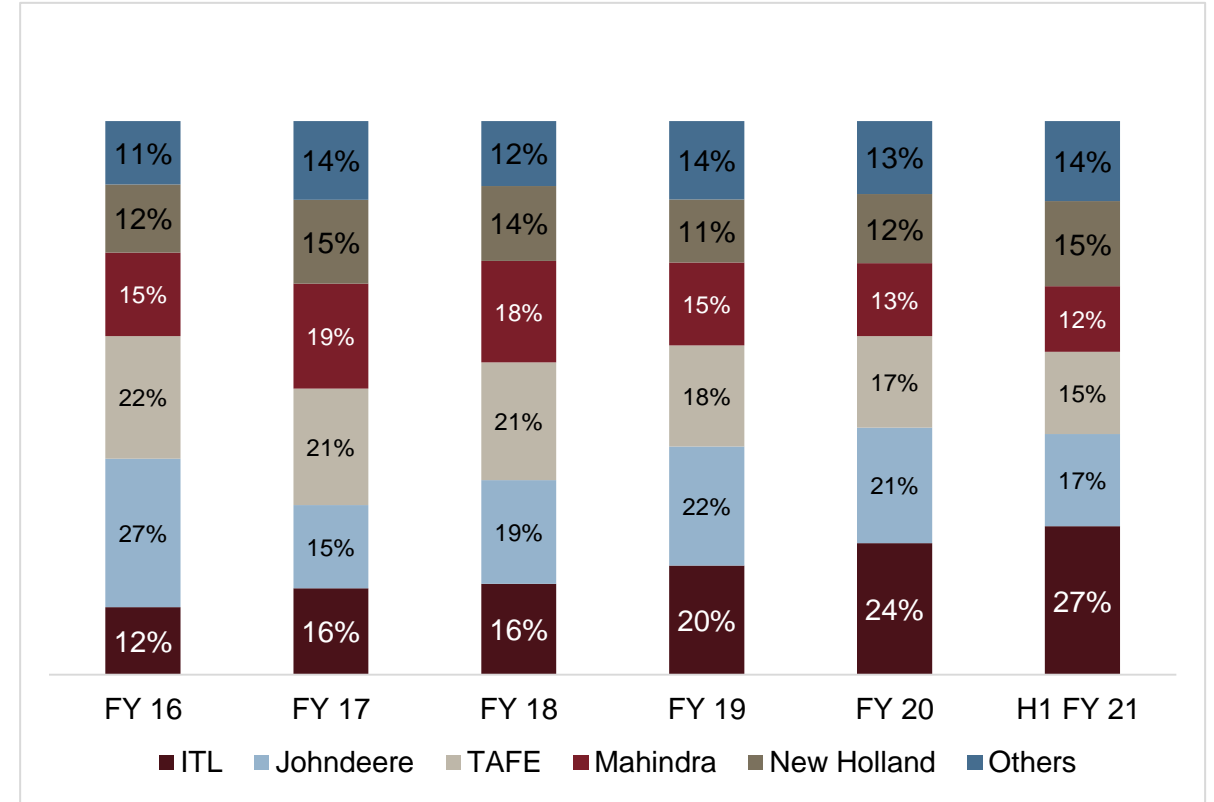
Source – CRISIL Research

Tractors <30HP on an uptrend in exports

Segment wise market share of exports

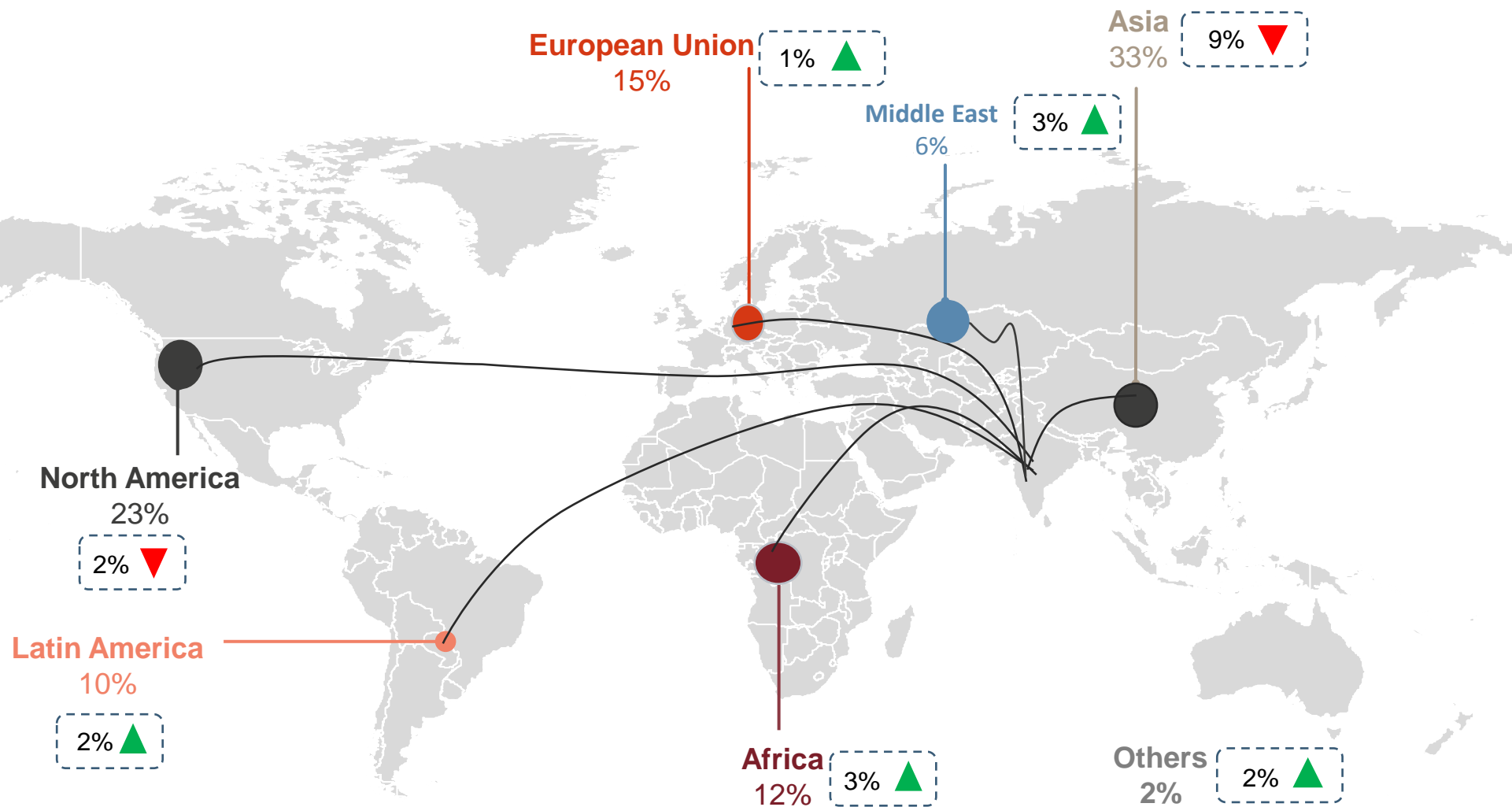


Player wise market share of exports



- Tractor exports to decline by 12% in H1 FY 2021. From July onwards, tractor exports have reported a yoy growth, however, on a lower base.
- More focus of the players on domestic markets has led to shrinking of exports due to supply chain issues.
- Increase in share of smaller tractors (<30HP), demand mainly seen from Asian countries where land pattern is similar to India and hence higher demand for smaller tractors.

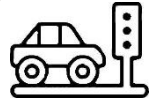
Tractor Exports



- Demand for tractors has remained robust in importing nations, similar to domestic market.
- **Share of major importing nations remain more or less in trend** as compared to fiscal 2020.
- Asian countries saw a sharpest drop amongst other nations.
- Demand seen from **European nations** on personal agriculture side.
- **Second wave of Covid** specially in European and North American region remains a **key monitorable**.

Stakeholder interactions

OEM



- Rural sentiments are expected to remain positive and translate into robust tractor demand for the festive period.
- Higher procurement to aid cash flow for farmer although average growth in MSPs to only have positive impact for wheat and paddy belt.
- SW Monsoon has led to good sentiments for the kharif season as well and till date sowing is >30% higher for June to September as compared to last year.
- There are certain supply constraints as well which are expected to smoothen by Q3FY21.
- OEMs have also been boosting production levels to ramp-up inventory ahead of the festive season and are gearing up for healthy sales for the rest of the year.
- The demand on-ground is positive across states on account of a good kharif produce and expectation of better farm income. Further, high reservoir levels to secure the upcoming rabi season as well.

Dealer



- Sentiments are positive on the back of positive agriculture.
- Production is stabilized, however demand for higher HP is exceptional now which has not been there in last 3 years. Demand for combined harvesters and higher HP is very high.
- Earlier OEM's used to dump stocks now that is not happening. Retail demand itself is good.
- Supply issues are there as demand is more.
- Sufficient stocks are not available.
- Even non-moving models are getting sold now.

Financier



- Financing issue persisted in April'20 as doorstep inspection could not be performed. However, financiers have now come up with digital processes.
- LTVs are expected to remain at a similar level of 70-75% amid risk averse investors.
- Tractor loans under moratorium are estimated to be at a lower level.

Source – Industry, CRISIL Research

Inventory scenario

Inventory built-up in anticipation of healthy retails during festive

Vehicle segment	Normal inventory in days	Current inventory levels*	Reasons
Passenger Vehicles	25-30	30-35	Retail sales during Aug & Sep were encouraging. Sales clocked m-o-m as well as y-o-y growth. Moreover, new launches continue to enjoy high traction. Due to supply issues during June & July, inventory levels dropped. Dealers corrected their inventory in Sep and began built up for the festive season. Inventory built up to continue in October, to gradually reduce in Nov.
Two Wheelers	30-35	40-45	In anticipation of robust festive, all OEMs have pushed their stock in Aug and Sept. We expect a built up to take place even in Oct. Easing out of supply issue has also led to higher availability of stock.
Commercial Vehicles	25-35	25-30	CV Inventory is largely due to festive build-up in the SCV segment which is seeing >30 days of inventory which is resulting in overall elevated levels of inventory in the system
Tractors	30-35	28-32	Inventory levels, have gone up in order to cater to the festive demand. OEMs are able to run factories in multiple shifts to achieve production at about 90% of the capacity. Supply chain situation continues to remain volatile.
Three-wheeler	20-25	35-40	Industry was at normal inventory at the start of the year, coupled with marginal sale of passenger 3w, has led to higher inventory at dealer end on passenger 3w side. Cargo inventory at normal level due to higher demand expected during festive.

Research NOTE: Normal inventory days for passenger three-wheeler is 15-20 days and for goods three-wheeler is 25-30 days
* Inventory level as on end of Sept 2020.

Source: Industry, CRISIL Research

Rural Scenario and government spending

Government support along with timely monsoon uplifts sentiment in rural areas

Agri scenario lends support to a struggling economy

Crop scenario



- Rabi CVI improved by **15% in FY20** on the back of bumper crop harvest
- Timely on-set of monsoon has led to a 6% increase in Kharif sowing on year (as on 11th September, 2020)
- Hence, we expect the Kharif CVI for 2020-21 to be higher by **3-5%** compared to last year

MNREGA



- Funds drying up in the flagship MNREGA scheme, As on 8th September, Rs. 63511 cr has been spent out of Rs. 63,176 cr allocated leaving a shortfall of Rs. 335 cr
- So far, around 58 million households have worked under the scheme in just the first five months, while the average full-year number in the last five years is 52-53 million. Though the demand for work under the scheme has tapered off significantly since April

Government support

PM Kissan and PM Garib Kalyan Yojana



- A total of 19 crore beneficiaries (instalment 5 + 6) have been transferred money under PM Kissan Yojana since April 2020 with a total expenditure amounting to Rs.38,000 cr
- PM Garib Kaylan Yojana was extended till November end wherein government ensures distribution of food grains to the poor. This would entail an additional government expenditure of Rs.90,000cr

PM Garib Kalyan Rojgar Abhiyaan



- Nine weeks since its inception, the Garib Kalyan Rojgar Abhiyan (GKRA) has generated a total of around 32 crore man-days of employments at a cost of around Rs 31,301 crore, data from the rural development ministry revealed.

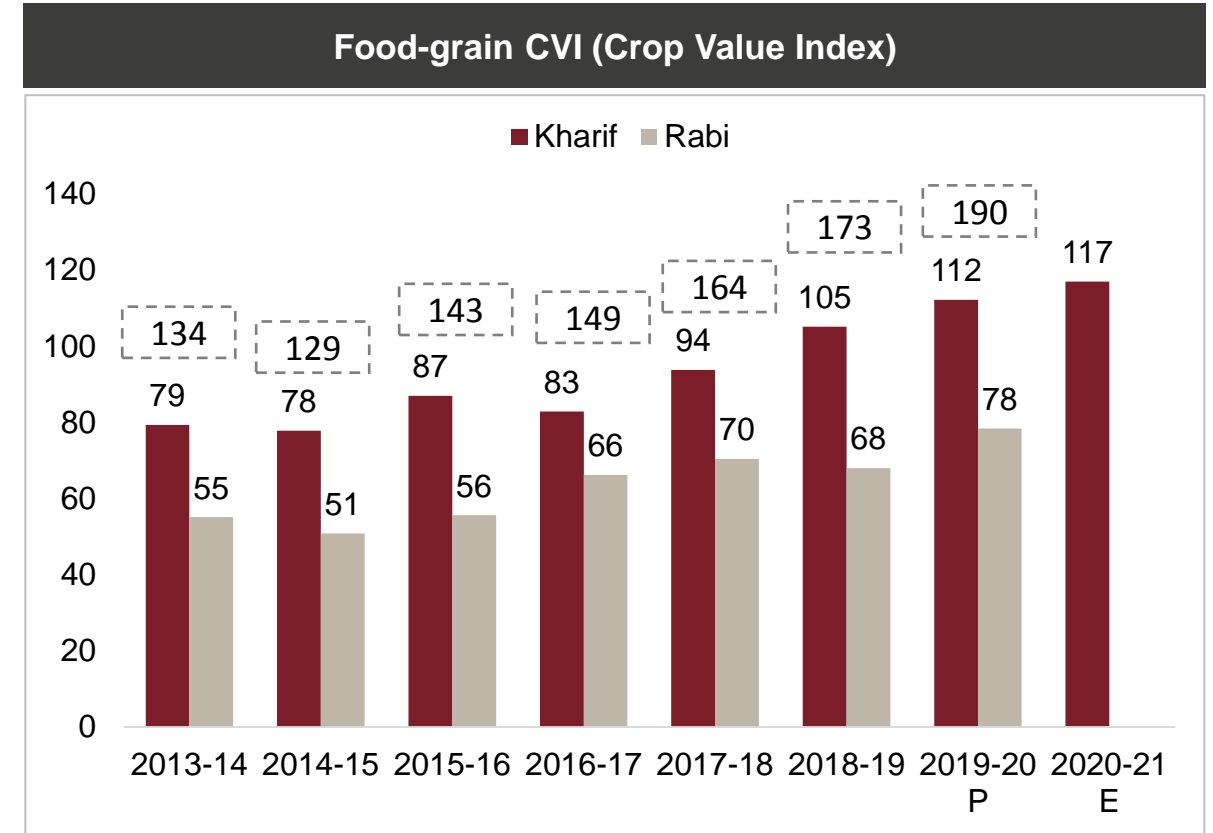
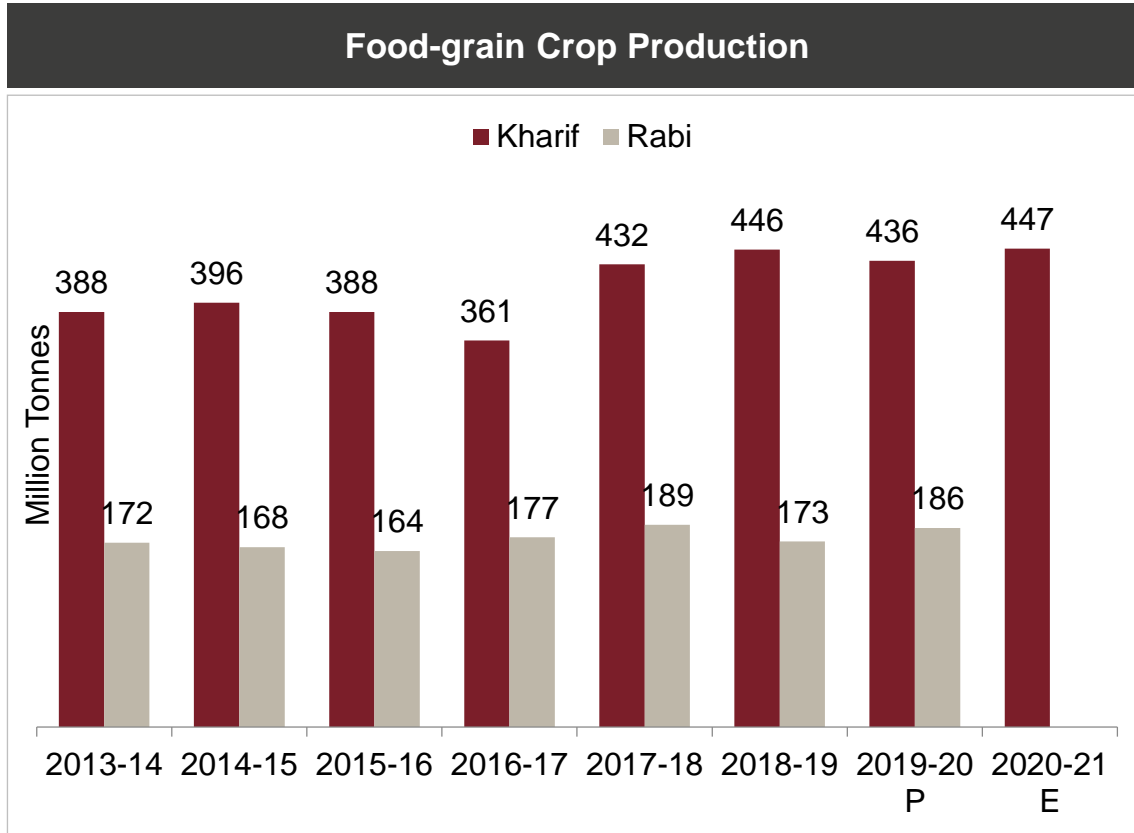


States	Bihar	Jharkhand	Odisha	MP	Rajasthan	UP
Number of districts	32	3	4	24	22	31

Note: Figures as on 7th October, 2020
Source: Ministry of Rural Development

Source – Industry, CRISIL Research

Positive outlook for kharif season and better cash flow in the market to aid agri sector



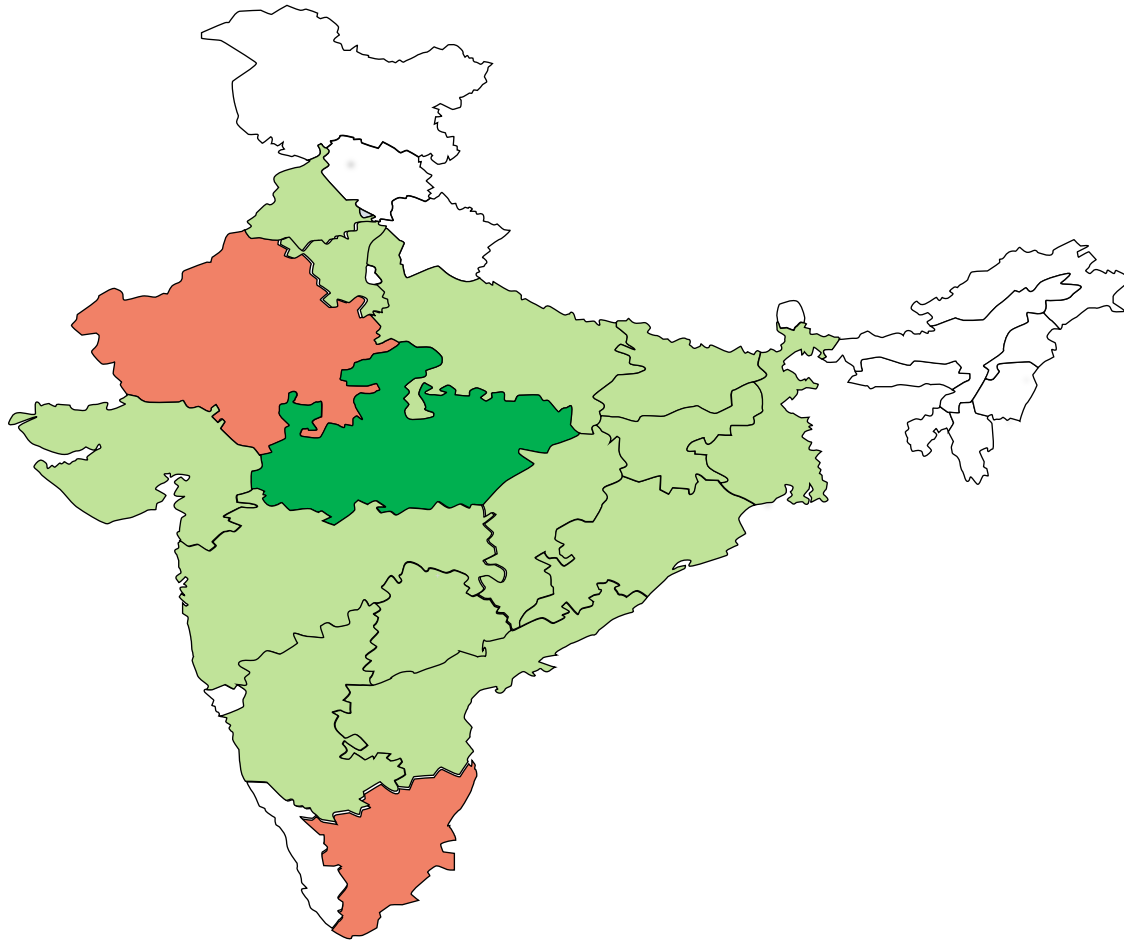
Good monsoon spread has led to a 6% increase in kharif sowing on year (as on 4th September, 2020)



Timely payments from government and private agencies for rabi crops has further improved sentiments

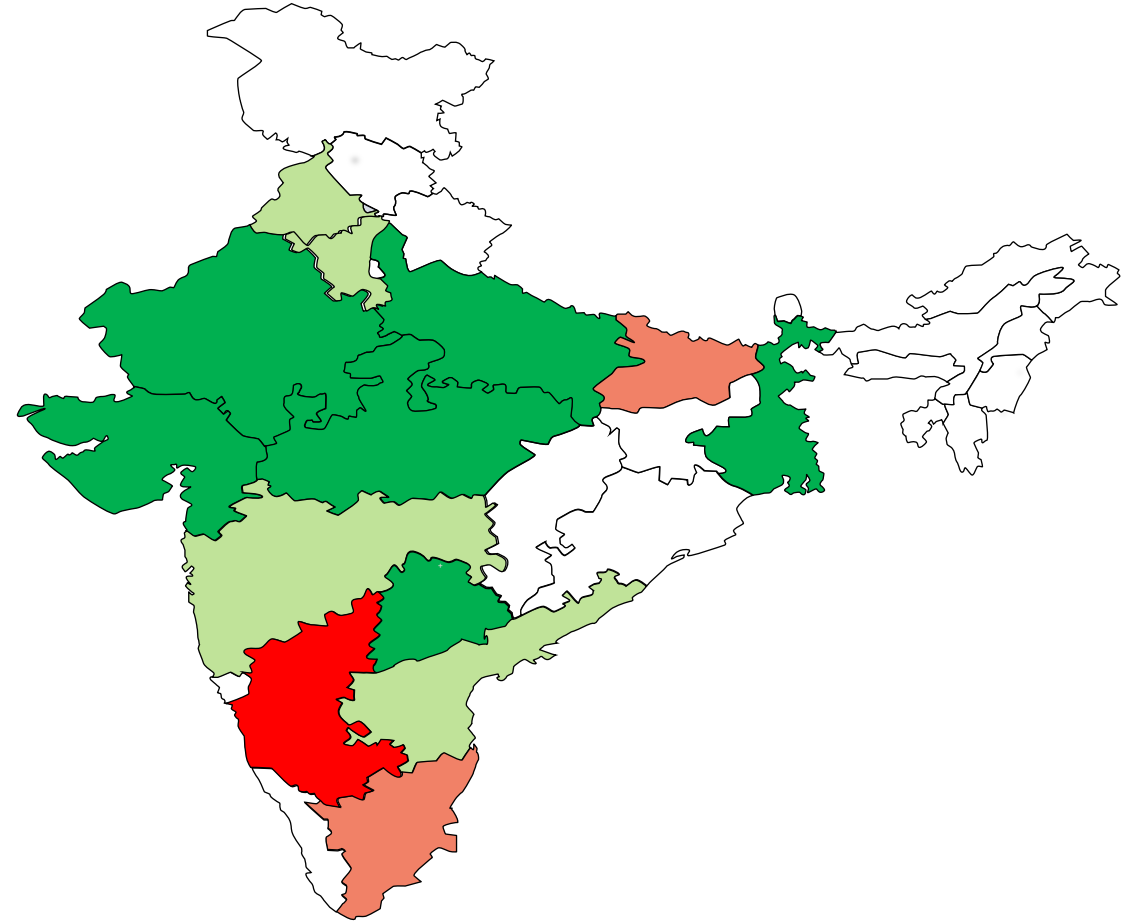
State wise Crop Value Index

Kharif CVI heat Map for FY21



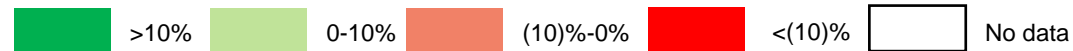
Source: CRISIL Research

Rabi CVI heat map for FY20



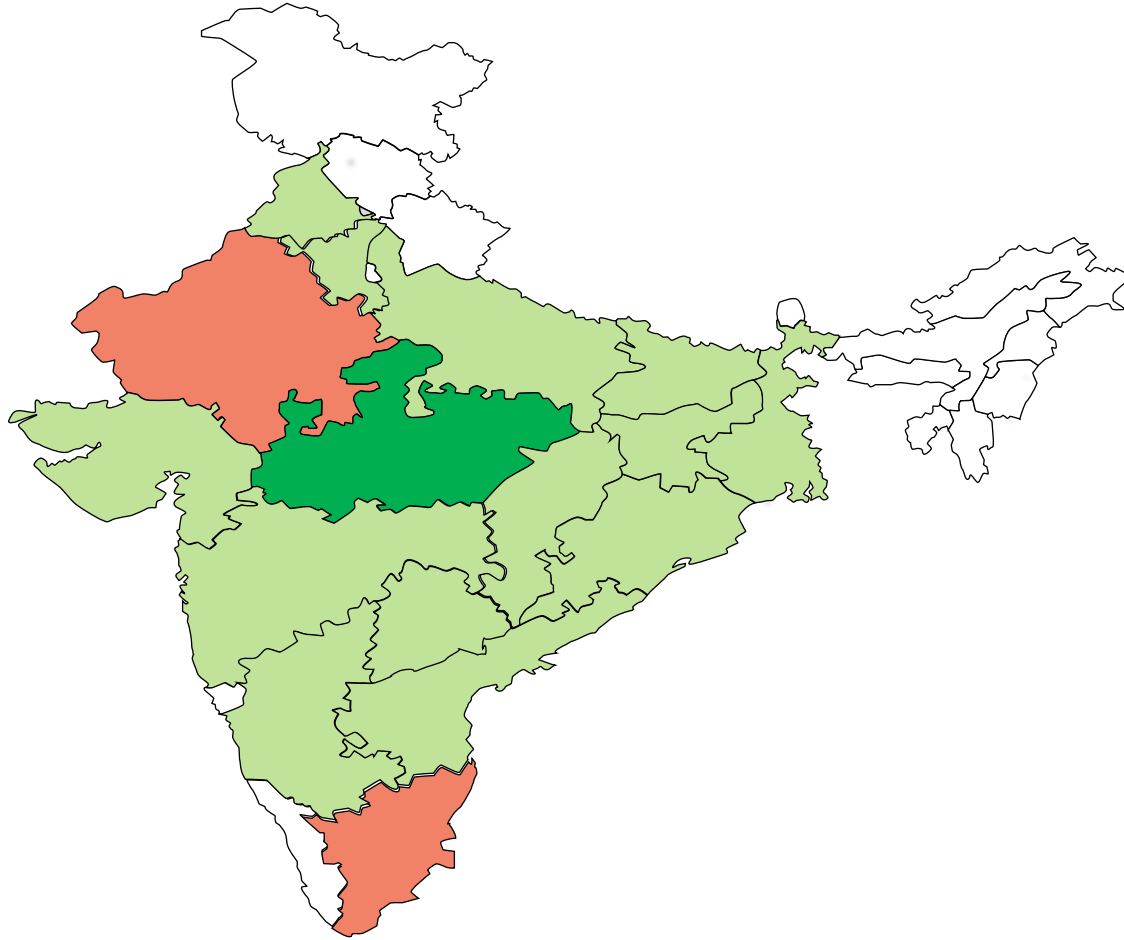
Source: CRISIL Research

Colours indicate % change on-year



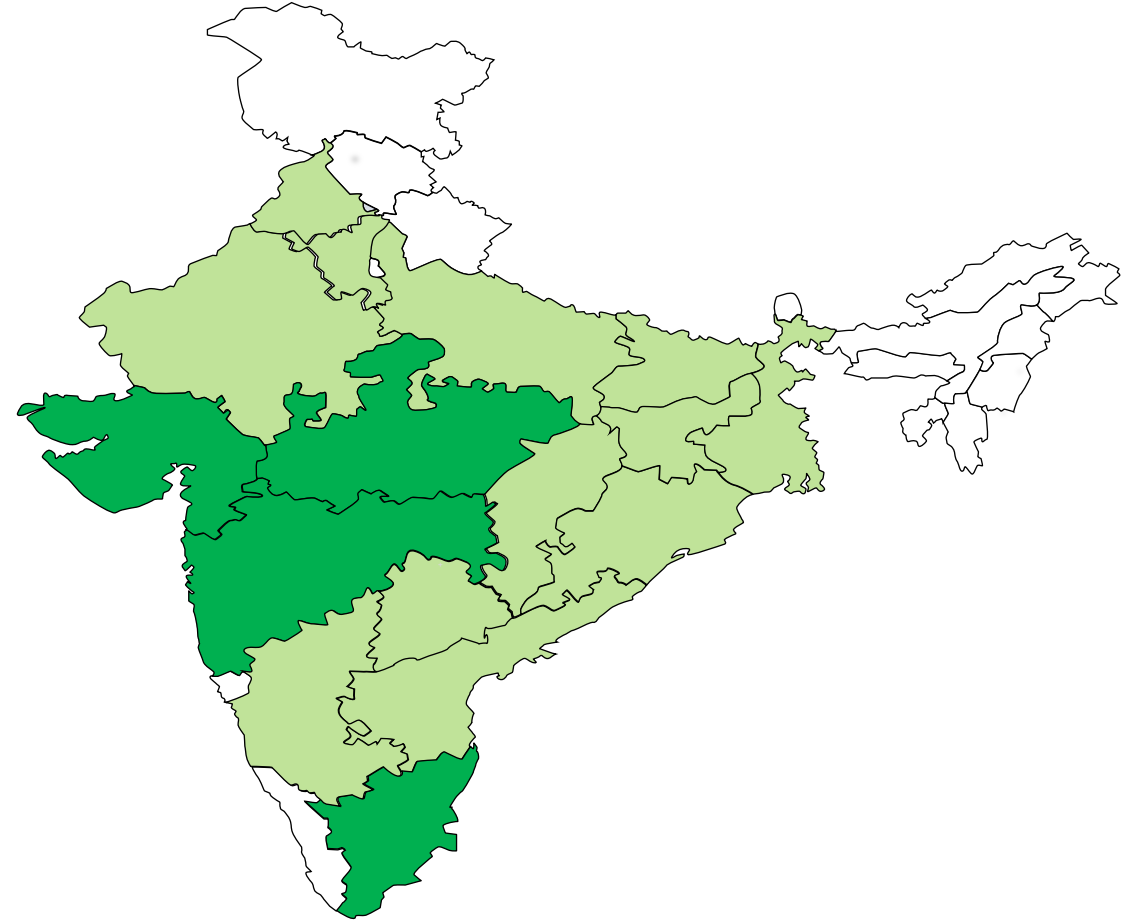
State-wise production and farm income expectation for the on-going kharif season

Kharif CVI heat Map for FY21



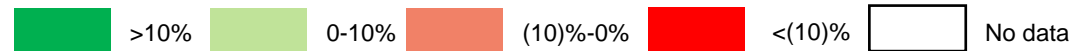
Source: CRISIL Research

Kharif Production for FY21



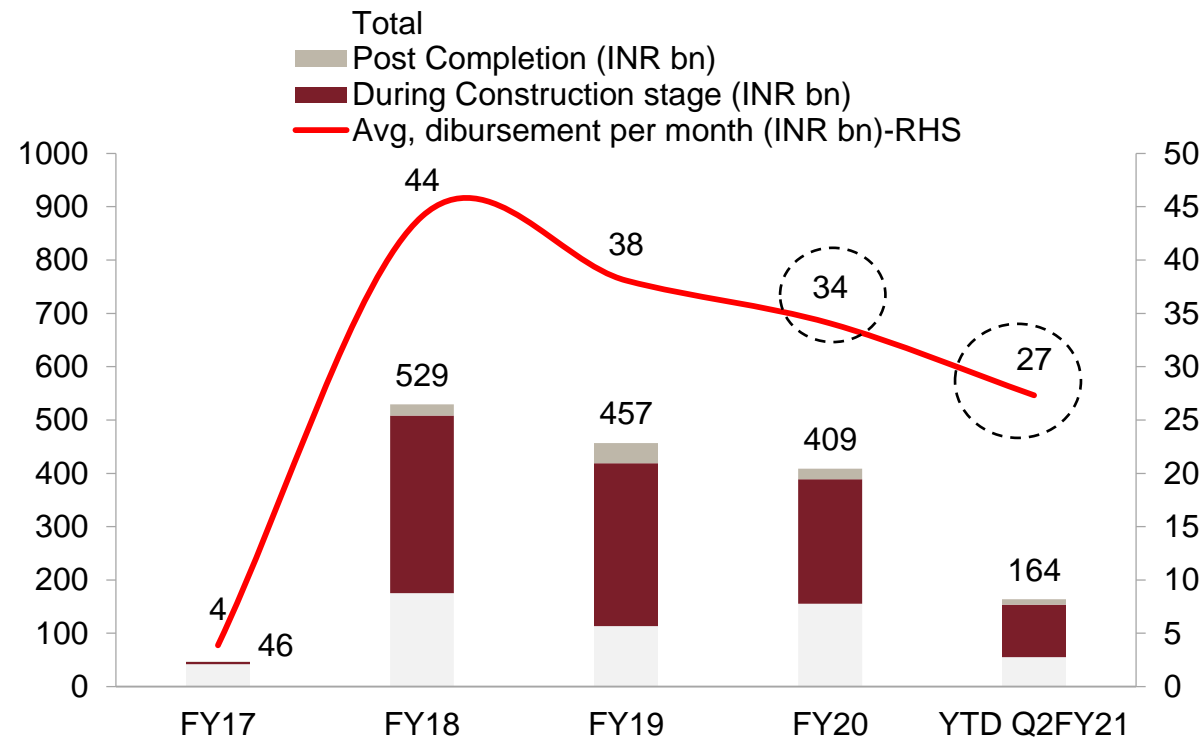
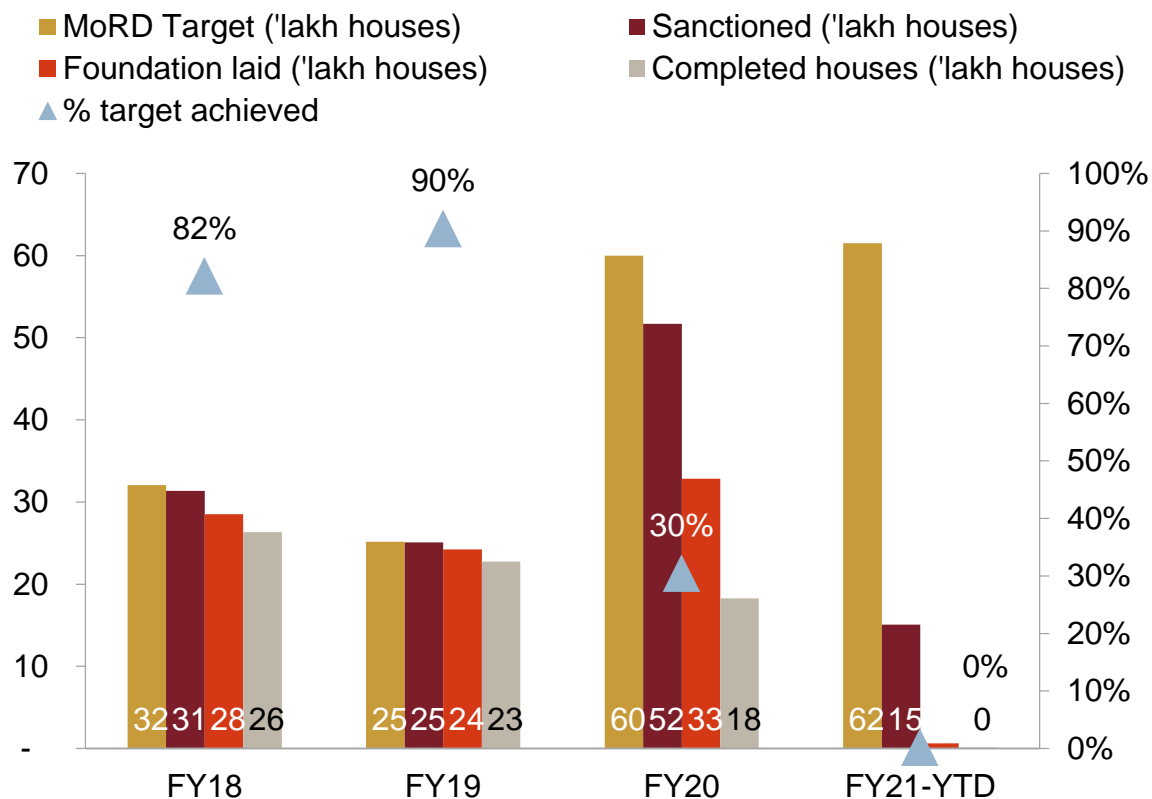
Source: CRISIL Research

Colours indicate % change on-year



PMAY (Gramin): Programme has lost steam of late due to funding constraints and reprioritisations due to Covid-19

PMAY-G construction and fund disbursement levels



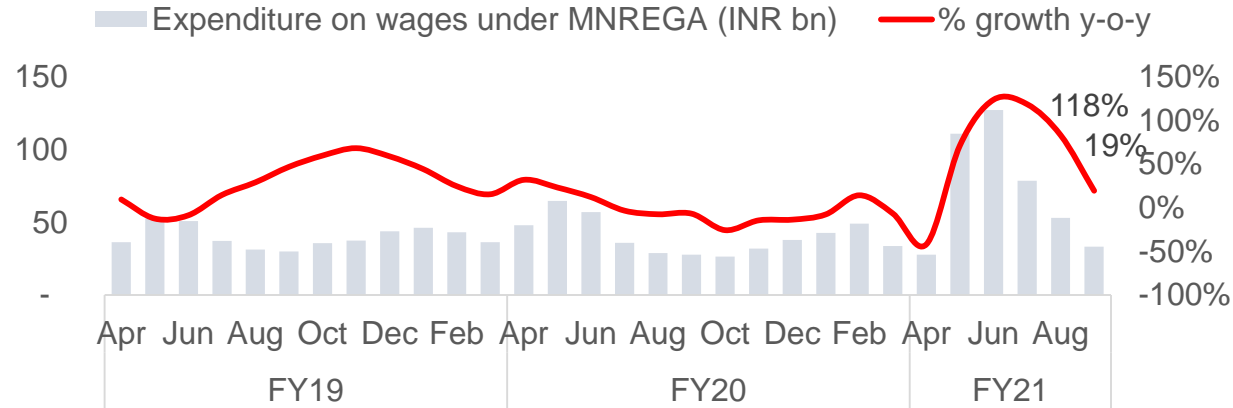
Slowdown in pace of funding as well as shift in focus from long term projects to short term stimulus has resulted in dismal completion rates for PMAY-G

program
YTD as of Sep 2020

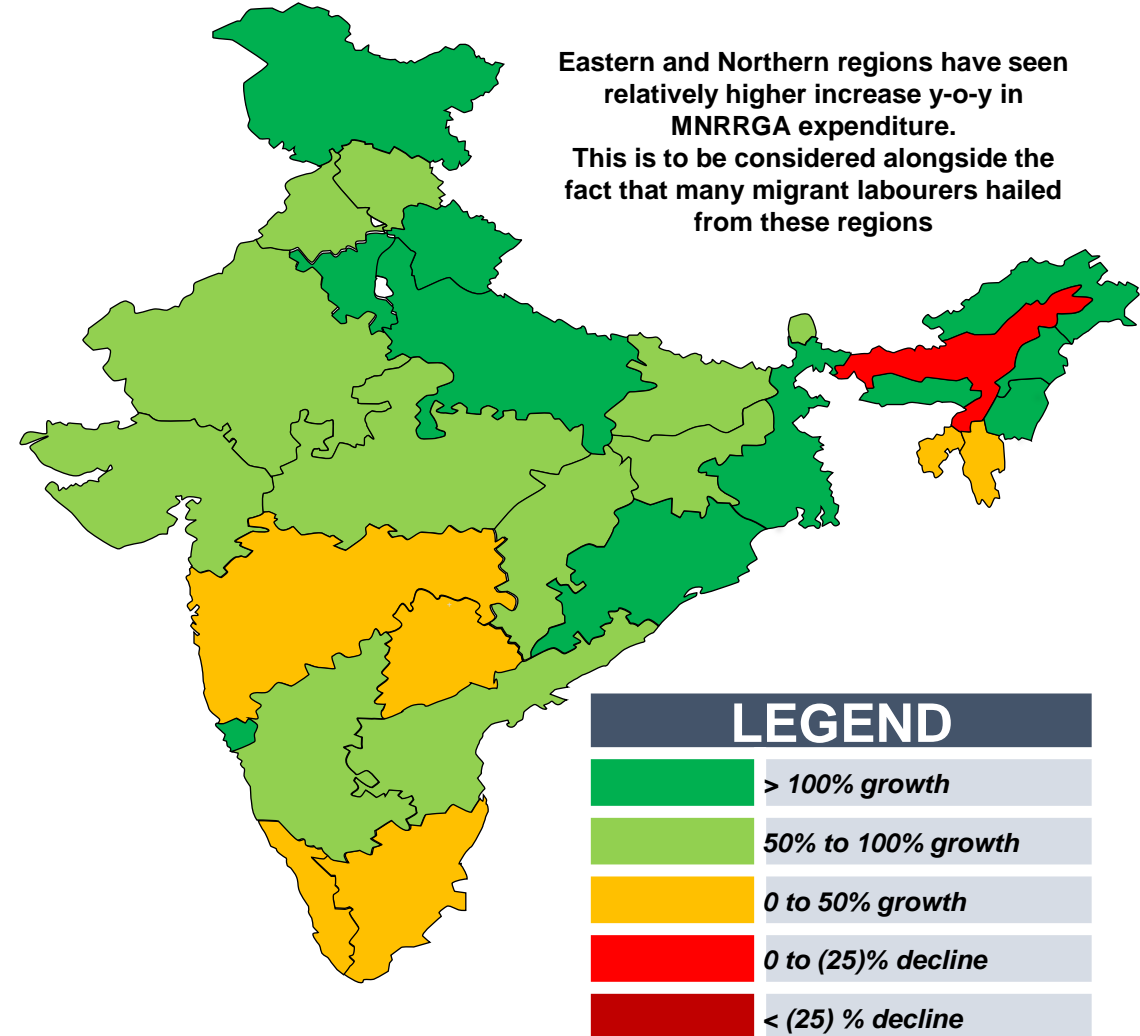
Source: Ministry of rural development, CRISIL Research

With 60% of budget allocation already spent in 6 months, pace of MNREGA funding is a key monitorable for H2FY21

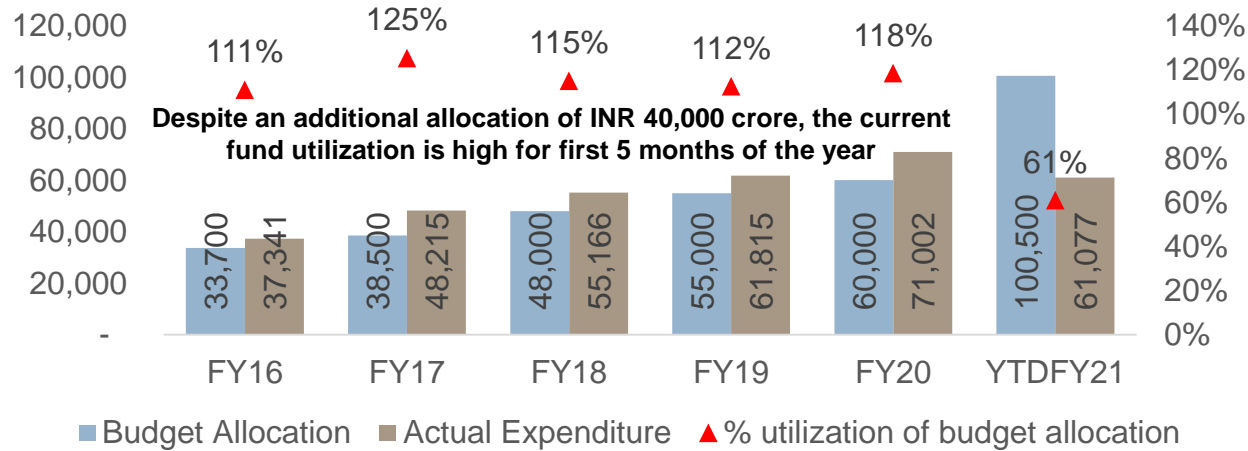
After tremendous jump in July 2020 MNREGA expenditure growth slopes downwards



State wise growth in MNREGA wages expenditure for Apr-Sep FY21



The MNREGA scheme has a history of overshooting budget



Note: FY21 person days are based on projected person day generation published for FY21 by MoRD
YTD FY21 figures as of 18th Sep 2020
Source: Budget documents, Ministry of Rural development, CRISIL Research

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